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**Japan and East Asian Monetary Regionalism:  
Towards a Proactive Leadership Role?**

By

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A thesis submitted in fulfilment of the requirements for the degree  
of Doctor of Philosophy in Politics and International Studies

University of Warwick  
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## ABBREVIATIONS

ACCSF	Asian Currency Crisis Support Facility
ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
AMF	Asian Monetary Fund
ANU	Australian National University
APEC	Asia Pacific Economic Cooperation
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
ASEAN ISIS	ASEAN Institute of Strategic and International Studies
ASEAN + 3	ASEAN plus China, Japan and South Korea
ASEAN PMC	ASEAN Post Ministerial Conference
ASPAC	Asia Pacific Council
BIBF	Bangkok International Banking Facilities
BOJ	Bank of Japan
CSCE	Conference on Security and Cooperation in Europe
EAEC	East Asian Economic Caucus
EAEG	East Asian Economic Grouping
EC	European Community
EEC	European Economic Community
EMEAP	Executive Meeting of East Asia-Pacific Central Banks
EPA	Economic Planning Agency
EU	European Union
FDI	foreign direct investment
GATT	General Agreement on Tariffs and Trade
GNP	gross national product
G7	Group of Seven industrialised countries
IMF	International Monetary Fund
IPE	International Political Economy
IR	International Relations
JERC	Japan Economic Research Centre
JICA	Japan International Cooperation Agency
LDP	Liberal Democratic Party
MEDSEA	Ministerial Conference for Economic Development of Southeast Asia
MITI	Ministry of International Trade and Industry
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
NAFTA	North American Free Trade Agreement
New AID Plan	New Asian Industrial Development Plan
NGO	non-governmental organisations
NICs	Newly Industrialising Countries
ODA	overseas development assistance
OECD	Organisation for Economic Cooperation and Development
OECF	Overseas Economic Cooperation Fund
OPTAD	Organisation for Pacific Trade and Development
PAFTA	Pacific Free Trade Area

PAFTAD	Pacific Trade and Development Conferences
PBEC	Pacific Basin Economic Council
PECC	Pacific Economic Cooperation Conference
PKO	peacekeeping operation
SDF	Self-Defence Forces
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
WDR	World Development Report
WTO	World Trade Organisation

## JAPANESE WORDS

<i>gaiatsu</i>	foreign pressure
<i>Gaitame Shingikai</i>	Committee on Foreign Exchange and Other Transactions
<i>hoshu honryu</i>	the conservative policy line
<i>Keidanren</i>	Japan Federation of Economic Organisation
<i>Keizaidoyukai</i>	Japan Association of Corporate Executives
<i>Nikkeiren</i>	Japan Federation of Employers' Association
<i>keizai kyoryoku</i>	economic cooperation
<i>seikei bunri</i>	the separation of politics from economics
<i>yosei shugi</i>	request from recipient governments

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## DECLARATION

This dissertation is my own work, and it has not been submitted for a degree at another university.

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## ABSTRACT

This thesis examines Japanese postwar foreign policy, specifically regional policy, based on two hypotheses that are closely related:

- (1) There has been a growing interest among Japanese policymakers in Japan taking greater initiative independent of US policy, not only economically but increasingly in the political and even the security area.
- (2) Japan has been quietly pursuing definite strategies for enhancing its national interests, and this style of Japanese foreign policy has been effective for achieving its goals, given domestic, regional and international constraints imposed on it.

The thesis offers detailed analyses, within the framework of IR and IPE, on what has changed in Japanese policy, what has caused the changes, what Japan has achieved throughout the postwar period and how and why Japan's policy exhibits such a style.

These themes are examined by looking at Japan's regional policy in the postwar period in the historical context, as well as by studying three case studies, namely: (1) the ideological differences between the Japanese approach and the Washington and Post-Washington Consensus on economic development and systemic transition. (2) Japanese policy towards the East Asian financial crisis in 1997 and 1998 and (3) Japanese policy towards East Asian regionalism. Extensive interviews with Japanese policymakers, such as MOF and MOFA officials, and Japanese intellectuals are used for investigating these case studies.

The thesis makes the following original contributions to knowledge. Firstly, it advances the discussions about the nature of Japanese foreign policy, which has been the subject of academic controversy over the last few decades, by shedding light on two related questions, namely (1) whether Japanese foreign policy can be characterised as reactive or strategic, (2) whether Japan's US priority in foreign policy has meant that its East Asia policy is decided according to US relations, or whether East Asia has occupied an important position in Japanese foreign policy. Secondly, the thesis also advances the discussions about the style of Japanese foreign policy. This is still an underdeveloped subject theoretically and empirically, but could potentially lead to more extensive arguments including the nature of leadership. Thirdly, detailed narrative analyses of Japan's policies towards important events in the 1990s, which have not yet been subject to sufficient scholarly debate, despite their great potential to offer insight into Japanese foreign policy, make a significant empirical contribution to the study of Japanese foreign policy. Furthermore, these empirical discussions, which are concerned with significant regional development in East Asia, contribute to the study of regionalism as well, given Japan's great economic influence on the region.

## CHAPTER 1

### INTRODUCTION

The nature of Japanese foreign policy has been the subject of academic controversy over the last few decades. Some claim that Japan does not have any strategy in its foreign relations and has failed to play a role commensurate with its economic power. They argue that Japan is just reacting to outside pressures, specifically from the US,<sup>1</sup> or simply coping with international situations.<sup>2</sup> Worse, it is argued that Japan is not a sovereign state, i.e. "a state with central organs of government which can both recognise what is good for the country and bear ultimate responsibility for national decision-making."<sup>3</sup> Additionally, Japanese leaders are thought to view the world through the prism of US-Japan relations, and thus the relationship with the US (or US requests) is seen as decisive for Japan's other foreign relations, including its East Asian<sup>4</sup> policy.

Others, however, hold quite opposite views, thinking Japanese foreign policy to be strategic, effective in achieving goals, and even aggressive, particularly in the area of foreign economic policy. While a large part of the negative thesis attributes, to a great extent, the ineffectiveness of the Japanese state in its foreign relations to its domestic political structures, the positive thesis considers that the strong bureaucracy and its network of political leadership and the private sector are the sources of its successful foreign policy. They argue that this system of 'Japan Inc.', which Chalmers Johnson

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<sup>1</sup> Kent E. Calder, "Japanese Foreign Economic Formation: Explaining the Reactive State," *World Politics* 40, 4 (1988), pp.517-541.

<sup>2</sup> Michael Blaker, "Evaluating Japanese Diplomatic Performance," in Gerald L. Curtis, ed., *Japan's Foreign Policy After the Cold War: Coping with Change*. (Armonk, New York: M. E. Sharpe, 1993), pp.1-42.

<sup>3</sup> Karel G. van Wolferen, "The Japan Problem," *Foreign affairs* 65, 1 (1986/1987), p.289.

<sup>4</sup> In this thesis, East Asia refers to the Association of Southeast Asian Nations (ASEAN) countries (Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Vietnam, Laos, Cambodia and Burma), People's Republic of China (hereafter China) and the Republic of Korea (hereafter South Korea), Hong Kong, the Republic of China (hereafter Taiwan) and Japan are sometimes included, depending on the context.



depicted, in a more sophisticated formulation, as the capitalist 'developmental' state,<sup>5</sup> has enabled Japan to achieve a number of objectives, including remarkable economic development and higher international status. In this interpretation, Japan's economic power has been effectively used for establishing a regional economic order that is favourable for Japan's national interests, which, in turn, has led to its greater influence and friendlier relations with regional countries.<sup>6</sup> This leads to the view that Japanese policymaking agents pursue their own agenda in accordance with the national interests, and East Asian policy is not necessarily the extension of US relations, although most scholars accept the strong influence of the US on Japanese foreign policy.

The wide divergence of views on Japanese foreign policy is indeed puzzling, and raises the question of how Japanese foreign policy can be best understood. Is this diversity of interpretations a reflection of variations in Japanese foreign policy across issue areas, such as trade or security, or time? Do these studies fail to explain Japanese foreign policy as a whole? This thesis has been driven by this problem in considering Japanese foreign policy.

The argument of this thesis is at odds with the negative thesis, as discussed throughout the thesis. However, the positive thesis also appears to be increasingly insufficient for explaining more recent Japanese foreign policy in that Japan has gradually become more interested in independent initiatives beyond the area of foreign economic policy, and has shown more positive attitudes towards political and even security initiatives, which the existing literature about Japanese foreign policy has downplayed to a great

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<sup>5</sup> Chalmers Johnson, *MITI and the Japanese Miracle* (Stanford: California: Stanford University Press, 1982).

<sup>6</sup> Walter Hatch and Kozo Yamamura, *Asia in Japan's Embrace: Building a Regional Production Alliance* (Cambridge: Cambridge University Press, 1996). Alan Rix, "Japan and Region: Leading from Behind," in Richard Higgott, Richard Leaver and John Ravenhill, eds., *Pacific Economic Relations in the 1990s: Cooperation or Conflict?* (St. Leonard, NSW: Allen & Unwin, 1993), and David Arase, *Buying Power: the Political Economy of Japan's Foreign Aid* (Boulder: Lynne Rienner, 1995).

extent.<sup>7</sup> It must be also noted that Japan has increasingly been trying to develop deeper relations with its neighbouring countries independent of the US, although this does not mean that Japan has been defying the US. To take a brief look at one example of recent changes in Japanese foreign policy, Japan's positive policies towards the development of East Asian regionalism, which will be detailed in Chapter 5, are quite political in the sense that they represent an attempt to establish a new framework for cooperation in the region. They are also quite independent of the interests or wishes of the US, and in a sense contradictory to them, although the US has not been overtly negative to such a development. It may also be argued that although its economic resources are still the main policy tool for Japan, it seems that Japan has shown its willingness to get out of the traditional pattern of 'chequebook diplomacy'. In short, while existing views on Japanese foreign policy are at considerable variance, few studies have been able to explain the significant changes that have appeared in the last few decades, namely more political initiatives beyond the economic sphere, independent of the US.

Furthermore, the existing literature, particularly the negative thesis, has overlooked an important characteristic of Japanese foreign policy, namely how Japan has pursued its policy agendas. This thesis argues that Japan has carried out its policies in a different style from what the dominant international relations circles usually expect: Japan has preferred to keep a low-profile while quietly and incrementally carrying out its policies, and the style of Japanese foreign policy has been quite effective in realising policy goals, given the domestic, regional and international constraints. The thesis considers that neglecting, or underestimating, this important characteristic of Japanese foreign policy has greatly contributed to misunderstandings over Japanese foreign policy.

In short, the thesis addresses the above inconsistent interpretations over Japanese

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<sup>7</sup> There are some scholars who have noted these changes. For instance, Michael J. Green, *Japan's Reluctant Realism: Foreign Policy Challenge in an Era of Uncertain Power* (New York: Palgrave, 2001).

foreign policy, by presenting two arguments: (1) there has been an important shift in Japanese policy in the postwar period, from political minimalism to more initiative-taking politically, and even in the security area, independent of the US, and (2) the quiet and incremental policy style is an important element in the interpretation of Japanese foreign policy. In the rest of this chapter, the literature on Japanese foreign policy is reviewed first in more depth, along the lines presented above, and then the hypotheses of the thesis are introduced. Subsequently the analytical framework that the thesis is based on is presented, followed by the outline of the thesis, including research methods and original contributions.

#### **The review of literature on Japanese foreign policy**

As outlined above, it is highly debatable whether Japanese foreign policy has been reactive or strategic, and whether Japan's US relations are decisive for the rest of Japan's foreign relations, including East Asian relations, or that East Asia has occupied a definite position in Japanese foreign policy. Accordingly, in the following the existing literature on Japanese foreign policy is reviewed from these two perspectives.

#### **Japanese foreign policy as reactive or strategic**

Viewing Japanese foreign policy as minimal or even non-existing is quite common not only among Japan specialists but also general readers. It is true that, for a couple of decades after the end of the Second World War, Japan put its diplomatic fate into the hands of the US so that it could focus on economic development. Its *seikei bunri* (the separation of politics from economics) policy was most conspicuous during that time, and Japan intentionally avoided becoming involved in complicated international diplomatic issues. However, a number of scholars see Japanese foreign policy as passive even after the 1970s, when Japan had risen as a great economic power.

Kent Calder presents Japan as a reactive state, arguing that this concept "merely

maintains that the impetus to policy change is typically supplied by outside pressure, and that reaction prevails over strategy in the relatively narrow range of cases where the two come into conflict."<sup>8</sup> He associates this reactive nature with the domestic political structure in Japan, including the fragmented character of its domestic policymaking process and strong interest-group pressures. Calder concludes that external factors determine Japanese foreign policy under such domestic circumstances of policy immobilism, regardless of the interests of Japanese policymakers.

One of the problems with his discussion is that it is quite easy to find cases that contradict his claim. He stresses passivity in Japan's foreign economic policy, whereas a large literature notes the more positive and strategic nature of its policy compared with the political and security areas, as argued below. In addition, some stress that even his evidence of Japan as a reactive state is not very convincing; namely, *gaiatsu* (foreign pressure), which Calder argues is the determinant of Japanese foreign economic policy, has not always worked effectively. Leonard Schoppa, in his analysis of US-Japan trade talks, shows that US pressure on Japan to bring about policy change produced widely varying results in terms of the Japanese government's willingness to go along with US demands. He observes that *gaiatsu* is effective when it works through domestic politics: namely when it has domestic support inside Japan; when it can be arguably characterised as in Japan's national interest; when there is a domestic problem in search of a solution; and when it is legitimate and ratifiable.<sup>9</sup> In short, the point of Schoppa's discussion is that international factors, specifically *gaiatsu*, could influence Japanese policy through domestic politics, but it could not automatically determine it, which contradicts Calder's contention.

Like Calder, Michael Blaker denies the importance of strategic considerations in

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<sup>8</sup> Calder, "Japanese Foreign Economic Formation," p.518.

<sup>9</sup> Leonard J. Schoppa, Bargaining with Japan: What American Pressures Can and Cannot Do. (New York: Columbia University Press, 1997).

Japanese foreign policy when he describes this policy as minimalist or coping (he actually argues that Japan is trying to cope but unsuccessfully).<sup>10</sup> By 'coping' he means that Japan is carefully assessing the international situation, methodically weighing and sorting out each alternative, waiting for the dust to settle on contentious issues, making domestic consensus and adapting to the existing situation with the fewest risks. In short, he sees Japanese foreign policy as being highly opportunistic. He is right in that Japan's diplomacy was minimalist until recently, particularly in the security area. It seems also true that Japan's diplomacy was not (perhaps still is not) very sophisticated tactically, which can be attributed to its deferring to the US in many political and security issues, thus sometimes failing to achieve sufficient objectives or missing opportunities to enhance national interests in some individual cases, as his two case studies on Japan's policies towards the third United Nations Law of the Sea Conference in the 1970s and the Gulf War in the early 1990s show. However, many would disagree that this tactical inability of Japan's diplomacy suggests a lack of strategy in Japanese foreign policy as a whole.

Donald Hellmann points out the contrast in policy across issue areas, arguing that Japan's record on political-strategic decision is as bad as its record on international economic policy is good, and "decision-making institutions have produced reactive, not active policies, regarding major *political* issues in foreign affairs."<sup>11</sup> To him Japan is "more a trading company than a nation-state, a nation without a foreign policy in the usual sense of the word,"<sup>12</sup> and he attributes this limitation largely to Japan's party politics, characterised by factional struggles, which gives Japanese prime ministers only limited power, together with relatively weak domestic institutions, like the National Defence Council (now the National Security Council) and Japan Defence

<sup>10</sup> Blaker, "Evaluating Japanese Diplomatic Performance."

<sup>11</sup> Donald C. Hellmann, "Japanese Politics and Foreign Policy: Elitist Democracy within an American Greenhouse," in Takashi Inoguchi and Daniel I. Okimoto, eds., The Political Economy of Japan: Volume 2 the Changing International Context (Stanford: Stanford University Press, 1988), p. 369.

<sup>12</sup> *Ibid.*, p. 358.

Agency. Although Hellmann accepts the successful record of Japanese policy in the economic area, he does not entirely agree with analyses that credit that record exclusively to Japan's domestic political economy, stressing the importance of the US-made international 'greenhouse' that allowed Japan to pursue its 'neo-mercantilist' policy. By arguing this, he, to a degree, downplays the strategic orientation of Japanese foreign policy even in the economic area.

On the other hand, there is a literature that emphasises the strategic character of Japanese foreign policy, particularly in the economic area. T.J. Pempel holds that for several decades following the Second World War Japanese foreign economic policy followed clearly defined and quite consistently executed objectives.<sup>13</sup> He argues that "the definition and implementation of foreign economic policy in Japan rests essentially on the domestic political structures of the country, particularly the strength of the state and its network of conservative support."<sup>14</sup> He does not neglect international forces, but considers that they are less important than domestic political factors in the shaping of Japanese foreign economic policy, and in some cases domestic forces "proved capable of explicitly resisting unwanted international pressures or of at least creatively manipulating such pressures."<sup>15</sup>

Likewise, Alan Rix, focusing on Japan's trade policy, maintains the significance of its policy objectives in trade policymaking, arguing that Japan's accommodating foreign pressures is not the automatic acceptance of them.<sup>16</sup> He states that "international pressures are one (albeit highly significant) input to the domestic Japanese policy process," and the "more important parameters of decision making are domestic: the long-term indicative objectives of government; the diversity of internal processes and

<sup>13</sup> T. J. Pempel, "Japanese Foreign Economic Policy: the Domestic Bases for International Behavior," International Organization 31, 4 (1977).

<sup>14</sup> *Ibid.*, p.726.

<sup>15</sup> *Ibid.*, p.759.

<sup>16</sup> Alan Rix, "Dynamism, Foreign Policy and Trade Policy," in J. A. A. Stockwin et al. Dynamic and Immobilist Politics in Japan (Honolulu: University of Hawaii Press, 1988).

the influence of the bureaucratic process itself on policy; and definitions of the national interest."<sup>17</sup>

William Nester recognises the more aggressive nature of Japanese foreign economic policy. He is convinced of that Japan is skilfully, successfully and single-mindedly securing its economic and political interests, and notes four Japanese foreign policy goals, namely economic and military security, rapid modernisation, acquiring great power status and world recognition of its accomplishments. These were pursued through state-led industrialisation and imperialism before the war and neo-mercantilism after the war.<sup>18</sup> To him, Japanese foreign policy, particularly foreign economic policy, has been purposeful and shrewd, not passive.

Dennis Yasutomo also opposes the idea that the Japanese government is paralysed by policy immobilism and only reacts to external pressures purposelessly, neglecting its national interest.<sup>19</sup> He accepts that Japanese policy is in a sense as reactive as other governments are, and "so much of Japan's foreign policy is tailored to responding, either in anticipation or after-the-fact, to the expectations, hopes, and fears of foreign actors, both nation-state and non-nation-state."<sup>20</sup> However, he argues that his case studies about Japan's multilateral bank policies and aid policies do not show that Japan is like a billiard ball, bouncing off the movement of others, and that Japan's behaviour reveals a Japanese agenda, often pursued against the wishes of others. In short, what he stresses is that external stimuli provide the initial push, but "Japan then incorporates the stimuli into its own policy objectives and fashions a policy that may or may not

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<sup>17</sup> Ibid., p. 314.

<sup>18</sup> William Nester, "The Third World Japanese Foreign Policy," in Kathleen Newland, ed., The International Relations of Japan (London: Macmillan, 1990).

<sup>19</sup> Dennis T. Yasutomo, The New Multilateralism in Japan's Foreign Policy (London: Macmillan, 1995).

<sup>20</sup> Ibid., p. 188.

respond directly to the intent or wishes of that stimuli."<sup>21</sup>

Furthermore, some scholars note that Japan has successfully advanced its agendas for its national interests but in a low-profile way. They point out that Japan's economic power has successfully created its long-term influence in East Asia; a combination of private and public Japanese capital (trade, investment and aid) has gradually moulded a regional economic order favourable to Japan.<sup>22</sup> As discussed in the next chapter, the economic ties of Japan with East Asian countries have considerably strengthened since the 1980s. Such a development has been basically driven by the private sector, particularly through FDI, but government policy has also played a crucial role through aid or other measures to encourage private activity. Arase argues that the institutional structure of Japan's overseas development assistance (ODA) policy reflects the role of the postwar Japanese state in guiding the private sector towards national developmental goals, and, while the private sector is not passive and has greatly benefited from the government's ODA policy, "it is the state bureaucracy that holds the balance of power."<sup>23</sup> Thus, according to them, Japanese foreign policy, specifically foreign economic policy, is very purposeful and skilful. The increased inflow of Japanese private and public capital has had a great effect on the region's economy, which naturally has raised Japan's profile in East Asia and has created the conditions that have led to a gradual, albeit limited, acceptance of Japan's larger role in the region. Alan Rix calls this Japan's 'leadership from behind'.<sup>24</sup> Hatch and Yamamura put it as follows: "[the rapid rise in Japan's standing in East Asia] is the product of a deliberate, largely successful strategy to embrace the region in a complex web of personal, governmental, and cooperate ties - all united under the ubiquitous banner of *keizai*

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<sup>21</sup> Ibid., p.188.

<sup>22</sup> Hatch and Yamamura, *Asia in Japan's Embrace*. Rix, "Japan and the Region," and Arase, *Buying Power*.

<sup>23</sup> Arase, *Buying Power*, p.247.

<sup>24</sup> Alan Rix, "Japan and the Region."



*kyoryoku*, or economic cooperation."<sup>25</sup>

In short, there is quite a large literature that sees Japan's foreign policy as strategic and successful, which presents various arguments that counter the view of Japanese foreign policy as reactive or minimalist. Admittedly, these arguments are limited to the economic sphere.

Although it is debatable to what extent Japanese foreign policy has been reactive or strategic, as discussed so far, few would probably disagree that Japan has formulated and implemented its foreign policy within given international orders centring on the US; it has positively participated rather less in forging and transforming such frameworks. Yoichi Funabashi writes: "Japan has seldom tried to present itself as a rule-maker in the world community. The rules were already there. Japan simply tried to adapt to them and, if possible, excel at playing the game. When faced with difficulty, however, it tended simply to ignore or reject those rules altogether."<sup>26</sup> Takakazu Kuriyama, a former Vice Minister for Foreign Affairs, accepts this, and argues that Japan did not have to act positively because Japan could reap considerable benefits from the existing international orders.<sup>27</sup>

#### Japanese foreign policy - dependent on the US or independent?

Because of this dependence of Japan on the US-centred international order, as well as on the bilateral relations with the US, it is unquestionable that Japan's foreign policy has been greatly constrained, if not determined, by its US relations, and that this unbalanced relationship has made it quite difficult for Japan to adopt independent policies. Makoto Iokibe claims that this policy towards the US has been the basis of Japan's postwar diplomacy, from which no governments have deviated, and within that

<sup>25</sup> Hatch and Yamamura, *Asia in Japan's Embrace*, p.115.

<sup>26</sup> Yoichi Funabashi, "Japan and the New World Order," *Foreign Affairs* 70-5 (1991/1992), p.60.

<sup>27</sup> Takakazu Kuriyama, "Taikenteki nihon gaikoron [a view on Japanese diplomacy from experience]," *Chuo Koron* (November 1991), p.113.

framework Japan has cultivated other foreign relations.<sup>28</sup> In fact, he notes, policies that were contradictory with the US's wishes did not go well, like Prime Minister Tanaka's attempt to deal independently with the oil crises against US policy lines in the 1970s.<sup>29</sup> Hellmann holds that "[o]ne international relationship, the U.S. alliance, has totally overshadowed all others since World War II."<sup>30</sup>

Robert Orr demonstrates the crucial role of the US with respect to Japan's aid policymaking.<sup>31</sup> He argues that the US has been able to exercise its influence on Japan's aid policy process principally through the Ministry of Foreign Affairs (MOFA), whose officials acknowledge that the US-Japan relationship is the bedrock of Japan's foreign policy, although he notes the US has not always been successful in pressuring Japan. His study is significant in that he actually shows how US pressures have penetrated into Japan's domestic policymaking processes by taking advantage of bureaucratic conflicts so that they may affect foreign policy outcomes. However, his analysis gives too much weight to the role of US pressures. As some scholars observe, Japan's aid policy has greatly reflected its own motivations,<sup>32</sup> which Orr refers to only briefly.

Few scholars in fact deny the strong influence of the US on Japanese foreign policy, which is also taken by many as the appropriate context for analysing Japan's regional relations. They argue that most Japanese postwar policies towards East Asia were taken with a view to their effects on the US-Japan relationship. Kazuo Ogura, former director-general responsible for economic negotiations in the Foreign Ministry,

<sup>28</sup> Makoto Iokibe, "Kokusai kankyo to nihon no sentaku [the international situation and the choice of Japan]," in Tadashi Aruga et al. eds., Koza Kokusai Seiji 4: Nihon no Gaiko [lectures on international politics 4: Japanese diplomacy] (Tokyo: Tokyo University Press, 1989), pp.19-52.

<sup>29</sup> Ibid., pp.38-40.

<sup>30</sup> Hellmann, "Japanese Politics," p.356.

<sup>31</sup> Robert M. Orr, The Emergence of Japan's Aid Power (New York: Columbia University Press, 1990).

<sup>32</sup> Dennis T. Yasutomo, The Manner of Giving: Strategic Aid and Japanese Foreign Policy (Lexington, Massachusetts: Lexington Books, 1986), Alan Rix, Japan's Foreign Aid Challenge: Policy Reform and Aid Leadership (London: Routledge, 1993).

commented that "Japan's strategy for Asia is to co-operate with America's Asia strategy... This means that Japan's policy towards Asia has really been its policy with respect to the United States."<sup>33</sup> Although East Asian relations have been considerably important to Japan throughout the prewar and postwar periods, it is probably true that US relations sometimes have taken precedence over East Asian issues. What matters for Japan has been how to pursue regional policy under the constraints of US relations, and this was particularly true for a couple of decades after the Second World War, when Japan was thoroughly embedded in Cold War bipolarity and Japanese policymakers' minds were occupied by the country's economic development while the economic importance of East Asia was not very high.

On the other hand, some emphasise the more strategic nature of Japan's regional policy, opposing the idea that Japan's East Asian policy is merely the extension of its US policy. It was argued above that the combination of Japanese public and private capitals has created a regional economic order. Chalmers Johnson holds that "when it comes to Japan's movement towards a new Greater East Asia Co-Prosperity Sphere, I believe that Japan may know exactly what it is doing, that its bureaucrats are quite capable of guiding the nation in this direction, and that its seeming indecision merely reflects a delicate sense of timing and excellent camouflage for its long-range intentions."<sup>34</sup> In an analysis on Japanese policy towards Southeast Asia, Yasuhiro Takeda argues that since the Fukuda doctrine Japan has repeatedly shown careful consideration towards ASEAN, and has given the positions of ASEAN its serious concern.<sup>35</sup> In fact, the discussion in the next chapter also shows that Japan's East Asian

<sup>33</sup> Cited in Richard L. Grant, "Japan and Northeast Asia," in Richard L. Grant, ed., *The Process of Japanese Foreign Policy: Focus on Asia* (London: Royal Institute of International Affairs, 1997), p.108.

<sup>34</sup> Chalmers Johnson, "History Restated: Japanese-American Relations at the End of the Century," in Higgott et al., eds., *Pacific Economic Relations*, p.55.

<sup>35</sup> Yasuhiro Takeda, "Tonan ajia gaiko no tenkai [the development of Japan's Southeast Asia diplomacy]," in Atsushi Kusano and Tetsuya Umemoto, eds., *Gendai Nihon Gaiko no Bunseki [the analysis of contemporary Japanese diplomacy]* (Tokyo: Tokyo University Press, 1995), pp.63-88.

policy has not been an automatic reaction to US policy, and Japanese policymakers have given serious consideration to Japan's regional relations.

In short, the thesis is confronted with two questions, which are closely related to each other, namely (1) whether Japanese foreign policy can be characterised as reactive and opportunistic, or strategic and effective in achieving goals, and (2) whether its US priority in foreign policy has meant that its East Asia policy is decided according to US relations, or that East Asia has occupied a definite position in Japanese foreign policy. They are the problems that the thesis deals with.

### Hypotheses

The thesis grapples with these problems about the nature of Japanese foreign policy by putting them in the context of gradual but highly significant shifts in Japanese foreign policy throughout the postwar period, namely (1) from minimalist to more initiative taking, and (2) from US-centred to more independent East Asian policy. In other words, Japan has become increasingly more interested in taking initiative; while in the past this occurred mainly in the economic sphere, recently Japan has developed more and more initiatives in political matters. These initiatives are most conspicuous in its East Asian relations because of historical, geographical and economic reasons. Accordingly, East Asia has an ever greater diplomatic importance to Japan, although the absolute importance of the US to Japanese policy has not been altered.

As mentioned above, until the early 1970s, Japan, economically devastated by the war and thoroughly embedded in the Cold War bipolarity, tried to avoid taking diplomatic initiative as much as it could so that it could focus on its own economic development. Its foreign policy interests were quite limited to narrowly defined economic benefits, and relied on US hegemony economically, politically and in security matters for their realisation. This gave the US huge leverage, which quite often made Japan determine

its policy in deference to US wishes. Additionally, East Asia was too undeveloped economically to be a serious economic partner for Japan, and there was a very uneasy atmosphere in the region, where East Asian countries disliked Japan's initiatives. As a result, relatively little attention was paid to regional matters. Although East Asia was not completely neglected, its aid policy was easily Japan's most important regional policy at that time.

However, since the 1970s, Japan has gradually become more active diplomatically due to several factors, including the impact of some critical international incidents, such as the oil crises and the collapse of the Bretton Woods system, and some significant distributional changes, like Japan's economic rise, the relative decline of US power and the increasing interdependence of the East Asian economy. While Japan was no longer allowed to continue its minimalist policy, for economic as well as political reasons East Asia has become increasingly more important to Japanese policy. Japan began to consider utilising its economic resources for political purposes, showing its willingness to take some political initiatives in the region, as shown in the Fukuda doctrine, although on the whole its policy was quite closely related to US policy.

In the 1980s and 1990s, there took place further shifts in Japanese foreign policy. Japan has been more concerned with political and even security initiatives beyond the economic area, for instance, the direct involvement in Cambodian peace from the late 1980s. Also, Japan has tried to take more initiatives independently of the US, as seen in the positive policies addressing the East Asian financial crisis and those advancing East Asian regionalism, although this does not mean that the importance of the US has decreased, nor that Japan has begun to defy US wishes. In fact, there has been overall compatibility of Japanese policy with US stances. Furthermore, it is noticeable that Japan has been participating more positively in debates about how international regimes should be, which contrasts with the previous acceptance of existing

international systems.

In short, the picture of contemporary Japanese foreign policy is quite different from that of half a century ago. This thesis considers that it is crucial to analyse carefully these changes in Japanese policy in order to characterize effectively the nature of Japanese foreign policy. Furthermore, as explained below, this attention to the changes in Japanese foreign policy has great significance for the study of International relations (IR) and International Political Economy (IPE). Because Japan's weight in the world political economy, not to mention East Asia, is now enormous, it is essential to take into account these changes in Japan so as to arrive at the right picture of what has been happening in East Asia and internationally.

The important point to note here is that, although the thesis accepts that the minimalist and perhaps reactive nature of Japanese policy sometimes overwhelmed the independent aspects in Japanese foreign policy, particularly in the early postwar period, it does not follow that Japan has merely been passive in international affairs and bereft of its own strategies or policy goals. It is true that Japan had to, and has to even now, compromise with US requests quite often. However, it is not correct to interpret this attitude of Japan as merely knee-jerk policies, automatically responding to US requests without any consideration of its own national interests. As discussed later, national interests matter to the same extent that they do in any other country, and Japan has strategies for enhancing its national interests. This thesis actually considers that such seeming reactivity has been a sort of a strategy for Japan to achieve its long-term policy goals and to create situations favourable for its national interests. To put it differently, Japan's frequent reactivity can be regarded as the result of its deliberate manipulation of domestic affairs and international circumstances in order to defend its national interests, as discussed in more detail in Chapters 2 and 6.

This consideration leads to the other argument of the thesis concerning the style of Japanese foreign policy. The view that Japan's economic power has gradually created a sphere of influence in the region was discussed above. This thesis considers that this idea can be extended to the style of Japanese foreign policy in general. This is apparent in Japan's low-profile and incremental approach to advancing its agendas without taking an overt, or dominant, leadership role particularly in East Asia, as recognised in some preceding works.<sup>36</sup>

Based on these observations, the hypotheses of the thesis are as follows.

- (1) There has been a growing interest among Japanese policymakers in Japan taking greater initiative independent of US policy, not only economically but increasingly in the political and even the security area, and this is particularly conspicuous in its East Asian relations. Accordingly, the position of East Asian countries in Japanese foreign policy-making has become significantly more important
- (2) Japan has been quietly and incrementally pursuing definite strategies for its national interests, and this style of Japanese foreign policy has been highly effective in realising its policy goals, given the domestic, regional and international constraints imposed on it.

These two points have great significance for the study of IR and IPE. Neglecting them can make it difficult to analyse correctly important events in the world political economy. While the rise of Japan as an economic power in the postwar period itself has already influenced the world economy to a great extent, how Japan has used and will use its economic power politically will have an immense effect on the international society as a whole. For instance, as seen in the later chapters of the thesis,

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<sup>36</sup> See, Glenn D. Hook, Julie Gilson, Christopher W. Hughes and Hugo Dobson, Japan's International Relations: Politics, Economics and Security, (London: Routledge, 2001).

an analysis of the East Asian regionalism since the late 1990s is not possible without noting the above points. Neither is it possible to understand the political economy of the East Asian financial crisis. This thesis argues that a correct understanding of Japanese foreign policy is an essential part of the development of the study of IR and IPE.

These changes in Japanese foreign policy as well as the way in which Japan pursues its agenda will be analysed following the framework of IR and IPE, which will be discussed next. In other words, while this thesis will empirically examine the above two hypotheses, it will also offer accounts, in the framework of IR and IPE, of what has caused these changes and why Japan has preferred such a low-profile approach. The following discussion on the analytical framework is also concerned with the research method of the thesis.

### Analytical framework

This thesis combines the international and domestic levels of analysis. While noting the influence of the international structure and its changes on foreign policy outcomes, it is argued that it is crucial to open the 'black box' of the policymaking process of the state. Understanding the views and intentions of individual key policymakers is a fundamental part in analysing a country's foreign policy. Non-governmental actors, such as private firms, interest groups or business organisations, sometimes exert a significant influence on policymaking processes. However, they, like international forces, influence foreign policy only to the extent that they have access to policymaking processes. Accordingly, while the thesis draws on the insights and strengths of several IR and IPE approaches, analysing domestic policymaking processes is given significant weight.

### International level analysis



Because postwar Japan has been highly vulnerable to international forces due to its heavy dependence on the US, it is particularly essential to incorporate them into the analysis of Japanese foreign policy. In the following, various international approaches are discussed in order to establish the analytical framework of the thesis.

Both realists and neo-realists assume that the state is a rational unitary actor. They personify the state as a single actor at the top making foreign policy on behalf of the national interest. Their picture of identical states interacting in the anarchic system is often likened to the movement of billiard balls. Unlike neo-realists, the traditional realist school, specifically Morgenthau, attributes political outcomes to the actions and interactions of the constituent units (states) in the system. The principles of human nature, the idea of interest defined in terms of power and the behaviour of statesmen are all important explanatory variables, but this approach tends to ignore the internal characteristics of the units.<sup>37</sup> The neo-realist school, led by Kenneth Waltz, stresses even more the structural-biased explanation, arguing that the international system conditions the behaviour of states, not vice versa.<sup>38</sup> Neo-realists reject the above claim of the traditional realists by asserting that the attributes of units are irrelevant in analysing international politics, hence leaving less room for internal politics. Thus, despite the primacy of the state in the realist and neo-realist paradigms, they analyse the world outside the state without giving due attention to domestic policymaking process.

This thesis considers that neither realists nor neo-realists can fully explain the foreign policy of a single country, and it is fundamental to analyse domestic politics. Even neo-realist scholars, such as Stephen Krasner, recognise that it is necessary to examine

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<sup>37</sup> Scott Burchill, "Realism and Neo-realism," in Scott Burchill et al. Theories of International Relations (London: Macmillan, 1996), p. 78.

<sup>38</sup> Kenneth Waltz, Theory of International Politics (Reading, Massachusetts: Addison-Wesley, 1979).

policy-making processes within a country when dealing with foreign policy.<sup>39</sup> Waltz also admits that structural causes are not determining, but are influences, and that both unit-level and structural-level analyses are needed to understand international relations.<sup>40</sup>

However, this does not discount the importance of international approaches for foreign policy analyses. International structures without doubt constrain, if not determine, state policy, and various works of realist and neo-realist scholars provide some important insights into the understanding of Japanese foreign policy.

Firstly, it can be argued that one of the realist and neo-realist core assumptions, that states pursue their national interests through rational strategies, has some important implications for foreign policy analyses. This does not mean that the thesis accepts the picture of the state as a unified and autonomous actor, interacting with others pursuing similar goals in the anarchic international system. Nor does it assume that super capable officials, with access to full information, calculate all the related values in society and all possible policy outcomes and determine the policies that would maximise such values.<sup>41</sup> What should be stressed instead is that the considerations of the policymakers about the national interest matter a great deal. Policymakers may not always adopt the right policy, but policy outcomes more or less reflect their assessments of the national interest.

It is important here to make clear how this thesis incorporates the concept of the national interest, as this concept has been the subject of great controversy. James

<sup>39</sup> Stephen D. Krasner, *Defending the National Interest: Raw Materials Investments and U. S. Foreign Policy* (Princeton: Princeton University Press, 1978), p.13. He stresses the distinction between the studies of foreign policy and international politics, arguing that foreign policy cannot simply be the study of the way in which individual countries, treated as unified wholes, interact in the international system.

<sup>40</sup> Argued in Martin Hollis and Steve Smith, *Explaining and Understanding International Relations* (Oxford: Clarendon Press, 1990), p. 117.

<sup>41</sup> Charles E. Lindblom, "The Science of 'Muddling Through'," *Public Administration Review* 19, 2 (1959), pp. 79-88.

Rosenau distinguishes two types of scholars who analyse this concept, namely objectivists and subjectivists. The former considers that the national interest is an objective reality that is discoverable through systematic enquiry. For Morgenthau, the national interest is determined by considerations of relative power. The latter group of scholars adopt a more pluralistic approach, arguing that the national interest reflects various social values, based on which high officials formulate policies.<sup>42</sup> The position of this thesis is closer to the subjectivists in the sense that it argues that the national interest is what policymakers consider to be desirable for their society. However, it differs from the subjectivist position in that it uses the term 'the national interest' separately from social demands, although it does not mean to argue that social demands are irrelevant for foreign policy analyses. In short, in this thesis the national interest is defined as policy objectives sought by policymakers based on their rational considerations of what is best for a state.<sup>43</sup>

Secondly, foreign policy-making certainly involves some element of the realist power-politics model, namely the view that international politics is a struggle for power between states in the anarchical system, although this is only one dimension of international politics. Power is as controversial and difficult a subject as the national interest, and there is great disagreement among scholars about what it means. Traditional realists define it in terms of military strength, but it is obvious that this narrow definition has been increasingly inadequate in the present international situation. In this thesis, power is understood as 'influence', namely a state's ability to influence other states in order to achieve its own policy objectives. One could argue that influence is closely related to the capacity of a state, which is based on various factors:<sup>44</sup> material, such as geography, resource endowment and economic as well as

<sup>42</sup> James N. Rosenau, The Scientific Study of Foreign Policy - reviewed and enlarged edition (London: Frances Pinter, 1980), pp.283-293.

<sup>43</sup> Krasner defines the national interest in the similar way.

<sup>44</sup> The capability of states also has been subject to intense discussion. See, Hitoshi Hanai, Shin Gaiko Seisakuron [thoughts on new foreign policy] (Tokyo: Toyo Keizai, 1998), pp.226-230.

military capability, and non-material, such as status in the world political economy. In turn, the non-material capacity could be derived from various factors, for instance position in international or regional organisations, and it is probably related to what Susan Strange calls structural power.<sup>45</sup> It can be argued that it is an important aspect of international politics that states are eager to improve these capacities in order to acquire greater influence in international society, so that they can create circumstances favourable to the pursuit of their own national interests. In fact, some recent Japanese foreign policies are in part motivated by the desire to secure a voice internationally and to maintain and improve its status regionally and internationally in the uncertain period after the end of the Cold War, as argued in detail in the subsequent chapters.

Thirdly, and related to the second point, geopolitical circumstances and their changes have constrained and affected the foreign policy of most countries, specifically Japan. In particular, the bipolar structure during the Cold War greatly narrowed the policy options of many countries, and in turn the end of the Cold War has significantly altered the conditions under which they decided and implemented foreign policy. As discussed in Chapter 2, the impact of the end of the Cold War on Japanese foreign policy is immense, and in fact it has greatly contributed to the changes in Japanese foreign policy identified above. Furthermore, the neo-realists' claim that the distribution of power across the international system and the place of a state in that distribution constrain the country's foreign policy has a great deal of explanatory power. It is hard to measure the actual amount of power or capability of states. However, probably few would dispute that the US exerts the prominent influence in the world political economy, which is derived from its overwhelming economic and military strength as well as structural power. Accordingly, the US stance on various issues has significantly affected the foreign policy of other states. Furthermore, Japan's rise as an economic

<sup>45</sup> Structural power is "the power to shape and determine the structures of the global political economy within which other states, their political institutions, their economic enterprises and (not least) their scientists and other professional people have to operate." (Susan Strange, States and Markets (London: Pinter, 1988), pp.24-25.)

power itself has obviously changed its position in the world, and this was reflected in some of the changes in its foreign policy, as touched on above.

In addition to the realist paradigm, liberalism also has great significance for foreign policy analysis in general and the analysis of Japanese foreign policy in particular. There are considerable divergences within the liberal tradition, and different variants of liberalism are at odds with each other.<sup>46</sup> Among them, neo-liberal institutionalism is particularly relevant as an international explanation of foreign policy. Neo-liberal institutionalism, unlike other kinds of liberalism, claims that states are the most significant actors in the anarchic international system. In this sense, it shares certain ideas with the realist tradition. However, it has more benign views about the international system and state behaviour than realism, which is due to the fact that, while realists (neo-realists) emphasise relative gains, neo-liberal institutionalists give importance to absolute gains. Specifically, neo-liberal institutionalism stresses that deepening economic interdependence has affected the foreign policy of countries. It leads states to engage in increasing levels of international cooperation and to construct regional and international institutions, and such regimes mitigate the anarchic condition of the international system.

This neo-liberal institutionalist argument has particular relevance for analysing Japan's stance on regionalism as well as its changing relations with East Asian countries. It can be argued that ever-increasing economic interdependence, or regionalisation, has significantly affected East Asian relations, and in turn, Japan's regional policy. In fact, closer regional economic relations since the 1980s have been one of the important driving forces for heightening interest in regional cooperation in Asia Pacific as well as East Asia, as shown in more detail in Chapters 2 and 6. This is not seen as a

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<sup>46</sup> Timothy Dunne, "Liberalism," in John Baylis and Steve Smith, eds., *The Globalization of World Politics: an Introduction to International Relations* (Oxford: Oxford University Press, 1997), pp.147-163.

functional process of spillover from economic integration to more political issues. Nor does the thesis necessarily see this as a state rational response, as many scholars in this tradition do. Instead, it is recognised here that deepening economic interdependence has greatly influenced the minds of East Asian and Japanese policymakers, which has significantly altered regional relations, and in turn Japanese foreign policy.

To sum up, international realist and liberal approaches constitute a significant part in the analysis of foreign policy, and Japanese foreign policy in particular. External factors influence foreign policy by constraining policy options, while providing some opportunities. However, the thesis does not take the view that there is some universal international force that drives countries in any particular direction. In other words, it does not adopt the positivist approach, on which both realism and neo-liberal institutionalism are based, namely the approach based on the assumption usually applied to natural phenomena, that the (social) world has regularities that theories can discover.<sup>47</sup> Instead it is argued that international factors only indirectly affect foreign policy through domestic policymaking processes. For this reason, the thesis considers that it is essential to analyse domestic policy-making processes, to understand what policymakers actually think, and to combine international and domestic approaches particularly when analysing the foreign policy of a single country.

#### Domestic level analysis

Although few scholars engaging in foreign policy analysis disagree about the need to open the 'black box' of the state, there is no comprehensive theory or explanation of domestic politics. However, it is possible to broadly divide arguments into society-centred and state-centred approaches.

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<sup>47</sup> Steve Smith, "New Approaches to International Theory," in Baylis and Smith, eds., The Globalization of World Politics, pp.165-171.

Society-centred approaches, which could be labelled as pluralism and considered as one of the strands of liberalism, refute the state centric view of international politics. Robert Keohane and Joseph Nye, in Transnational Relations and World Politics, one of the central texts of this genre, stressed the centrality of other actors, such as interest groups, transnational corporations and non-governmental organisations.<sup>48</sup> In society-centred approaches, these social forces are seen to have a significant influence on foreign policy. For instance, the interest group approach, which is one variant of society-centred explanations, views state policy as the outcome of a competition among organised interest groups for influence over particular policy decisions.<sup>49</sup> Krasner notes that the state is not regarded as an independent entity, but seen as a referee among competing social groups, at worst as a cipher.<sup>50</sup>

The applicability of these approaches to foreign policy analysis depends on which issue area is at stake. It can be considered that foreign economic policy, where policy benefits are unevenly distributed across sectors, is generally more affected by social pressures than diplomatic and security issues. It seems not to be difficult to find evidence of social influence when analysing trade and investment policies. As far as Japan's foreign policy is concerned, it is widely known, for instance, that the pressures of Japanese agricultural producers, through their cooperatives, have greatly affected Japan's policy towards the agricultural trade. The role of business in Japanese ODA policy is probably more debatable, but many agree that there has been some degree of influence of the private sector on ODA policy making.<sup>51</sup> Also, Inoguchi and Iwai

<sup>48</sup> Discussed in Dunne, "Liberalism," p. 154.

<sup>49</sup> John G. Ikenberry, David A. Lake, and Michael Mastanduno, "Introduction: Approaches to Explaining American Foreign Economic Policy," International Organization 42, 1 (1988), p. 7.

<sup>50</sup> Krasner, Defending the National Interest, p. 1.

<sup>51</sup> For instance, see Arase, Buying Power, and Marie Soderberg, "Japanese ODA – the Business Perspective," in Marie Soderberg ed., The Business of Japanese Foreign Aid: Five Case Studies from Asia (London: Routledge, 1996), pp. 72-88. Inada, on the other hand, has a more reserved view in this respect, pointing out that, although it is true that the Japanese private sector has some impact on ODA, its influence has become limited; for instance, Japan's decision to promote the general untying of Japanese yen loans in 1978 was made despite strong opposition from business circles and the Ministry of International Trade and Industry (MITI). (Juichi Inada,

observe that interest groups are involved in Japanese policymaking process, side by side with bureaucrats and politicians known as *zoku giin* (meaning politicians in tribes).<sup>52</sup>

This thesis considers that society-centred approaches explain an important part of foreign policy making, to the same extent that international approaches do, but that states matter much more than the proponents of these approaches generally assume. It can be argued that society-centred approaches, together with international approaches, supplement state-centred approaches in the way they take into account the fact that private interests affect the considerations of policymakers, as argued below. However, the thesis opposes the idea that social forces can overwhelm state power and that state institutions merely provide an arena where these interests can compete with each other.

Finally, turning to state-centric approaches, here again, there is no single universal theory, but probably it is useful to start from Graham Allison's classic work,<sup>53</sup> as it still provides a number of important insights into foreign policy analysis. Indeed, Margot Light states that "many of Allison's original insights have become the truisms of FPA [foreign policy analysis], terms which he coined have entered the IR vocabulary, and his work continues to provoke discussion".<sup>54</sup> Allison formulated three models, namely the rational actor, organisational process and governmental politics models, labelled Model I, II and III, for explaining the Cuban Missile Crisis. He argues that most analysts explain the behaviour of national governments based on the rational actor model, where foreign affairs are understood as "the more or less purposive acts of unified national governments."<sup>55</sup> However, this simplification, according to him,

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"Taigai enejo [foreign aid]," in Tadashi Aruga et al. eds., *Koza Kokusai Seiji* 4, pp.196-201.)

<sup>52</sup> Takashi Inoguchi and Tomoaki Iwai, *Zoku Giin no Kenkyu [research on zoku giin]* (Tokyo: Nihon Keizai Shinbunsha, 1987).

<sup>53</sup> Graham T. Allison, *Essence of Decision* (Boston: Little, Brown, 1971).

<sup>54</sup> Margot Light, "Foreign Policy Analysis," in A. J. R. Groom & Margot Light, eds., *Contemporary International Relations: a Guide to Theory* (London: Pinter, 1994), p.95.

<sup>55</sup> Allison, *Essence of Decision*, p.4-5.



obscured the fact that "the 'maker' of government policy is not one calculating decision-maker but is rather a conglomerate of large organizations and political actors."<sup>56</sup> Allison's second model is one of the alternative approaches to this rational actor model, and sees government behaviour as the output of large organisations functioning in accordance with pre-established routines or standard operating procedures. Then, his third model takes particular notice of individuals within the government. According to this model, government behaviour is understood as the result of bargaining, or pulling and hauling, among individual policymakers, who act in terms of no consistent set of strategic objectives but rather according to various conceptions of national, organisational, domestic and personal goals.

It could be argued that each of these three models has its own significance, and in a way all of them are correct in their own right, but actual behaviours can be best explained through a combination of the three. Model III suggests that foreign policy is not always decided by monolithic groups. It is probably rare that policymakers concerned with an issue completely agree with each other down to the last detail. Model III appreciates that it is essential to grasp what actors are involved in a decision making process and how decisions are made through bargaining among those actors. However, assuming that decision making is a process of bargaining does not necessarily lead to the idea that policies are subject to the parochial considerations of policymakers. Rational considerations discussed in Model I are also involved in decision making, although, as argued above, it does not mean that policymakers can always make correct judgements or that there is one universal truth about the national interest. Meanwhile, Model II is probably more helpful for understanding the process of implementing a decision, rather than decision making itself.<sup>57</sup>

From this viewpoint, it could be argued that foreign policy is the product of a mixture

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<sup>56</sup> Ibid., p.3.

<sup>57</sup> Hollis and Smith, *Explaining and Understanding*, p.148.

of the various interests of several policymakers. As Allison notes, people involved in a policymaking process have a range of interests, which are to do with their background, position, personality and so on, and policy reflects this plurality of interests of the numerous policymakers. This means that explaining why a particular policy is adopted is a complex exercise, as there could be a number of reasons for a policy, rather than a single one. Building on Allison's analysis, this thesis divides these interests into four categories, namely national, organisational, domestic and personal interests. As argued above, this thesis considers that national interests are the policymakers' considerations about what is best for their country. Policymakers, particularly bureaucrats, can also be considered to be interested in 'the health of their organisation'. More specifically they are eager to maintain and increase the influence of the organisation they belong to, as 'where you stand depends on where you sit'.<sup>58</sup> With respect to domestic interests in particular, politicians tend to be very concerned about the domestic consequences of their decisions about foreign affairs. In the terms of the theory of Public Choice, the greatest interest of politicians is to win the next election. Finally, personal interests could involve anything. For instance, they can be concerned with ideology, whether dovish or hawkish. They also greatly overlap with organisational interests and domestic interests, and, in a broader sense, with national interests, and perhaps sometimes it is difficult to distinguish private interests from others. It can be argued that several policymakers, each of whom has a different configuration of interests, are involved in a policymaking process, and that what is needed in the analysis of a policy is to distinguish who are involved and what views and interests they have. This procedure is certainly applicable to the analysis of Japanese foreign policy, and that is why this thesis considers that interviewing key policymakers for the cases that it deals with is important, as explained more fully below.

This argument does not deny the significance of international and society-centred

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<sup>58</sup> Allison, *Essence of Decision*, p.176.

approaches, as stressed before. International, as well as social, factors influence the interests and calculations of policymakers to a great extent. It may be argued that international factors affect policymakers' thinking about national interests, in particular, while organisational, domestic and personal interests are closely related to social pressures. In short, international and social factors can be integrated into state-centred approaches by taking into account the ways in which these factors affect the policymakers' thinking, and this thesis adopts this combined approach.

### **Research methods**

Based on this analytical framework, this thesis addresses the research questions outlined above through a careful analysis of empirical evidence; after giving an historical overview of Japanese regional policy in the next chapter, it focuses chiefly on some important cases in the 1990s. These cases are analysed based on materials from elite interviews and documentary research.

### **Case studies**

Three case studies are discussed in subsequent chapters, namely Japan's development philosophy (Chapter 3), its policies towards the East Asian financial crisis in 1997 and 1998 (Chapter 4) and its policies towards East Asian regionalism in the late 1990s (Chapter 5). The thesis places significant weight on the period since 1990 up to the present, and all of the three case studies are located in that period. This emphasis is a response to the relatively small literature about Japan's policy in the 1990s (particularly the late 1990s), despite considerable changes during that period. In particular, Japan's policies towards the East Asian financial crisis and East Asian regionalism have not been discussed sufficiently in the scholarly literature.<sup>59</sup>

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<sup>59</sup> There are several scholarly studies about this subject, which were helpful for this research. They include: Akira Suhiro and Susumu Yamakage, eds., *Ajia Seijikeizairon [discussions on Asian political economy]* (Tokyo: NTT Shuppan, 2001), and Green, *Japan's Reluctant Realism*.

Nevertheless, these policies are significant because they reflect important changes in Japanese foreign policy, and pose intriguing questions, which none of the traditional approaches to Japanese foreign policy reviewed earlier can fully explain. In addition, these case studies have implications for the character of Japanese policy, specifically in terms of the style of foreign policy implementation, which is another core argument of the thesis.

Japan's stance on development philosophy has been discussed more in the existing literature than the other two cases. In particular, the end of the Cold War provoked a considerable amount of debate about 'competing capitalisms'. However, Japan's stance on that matter has not been discussed comprehensively yet. Also, throughout the 1990s, Japan's economy declined, and during the East Asian financial crisis its economic systems were criticised as a cause of the crisis. Considering these circumstances, it is useful to re-examine now Japan's stance on this subject and consider how and why it has or has not changed. Moreover, the discussion in Chapter 3 offers some clue to the understanding of Japan's policy concerning the other two cases. Those three case studies, however, must be analysed within the historical context of Japanese foreign policy throughout the postwar period, and thus Chapter 2 discusses that context, based mainly on the existing literature.<sup>60</sup>

#### Elite interviews and documentary research

The analysis of these case studies, along with the historical overview of Japanese regional policy during the postwar period, employ elite interviews and documentary research, which are complementary to each other.

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<sup>60</sup> This thesis deals only with the postwar period. The neglect of the prewar period is partly because of lack of space. It is also because the thesis is interested in gradual changes in Japanese foreign policy under the particular domestic, regional and international circumstances of the postwar period, which are completely different from the prewar era. Although interesting, the comparative analysis of Japan's activism in these two periods, and the understanding of Japanese foreign policy in the longer historical framework, going back to the prewar period, remain topics for another occasion.

Elite interviews were used in several ways. Firstly, they were useful to obtain accurate information about events. There was a great deal of inconsistent information across various newspapers, journals and other articles, about some very basic facts, such as which country proposed what and when, or which countries opposed a proposal. There was further confusion about more specific details, like what ministers actually said. Secondly, elite interviews provided some behind the scenes information, like internal discussions within a ministry, or involvement and interference of other ministries. This was, unsurprisingly, the hardest part of the interviews, but nevertheless quite a lot of useful information was obtained. Thirdly, it was very worthwhile to ask key decision makers (for instance, Eisuke Sakakibara with respect to the East Asian financial crisis) what motivated them and what was intended in deciding particular policies. This is consistent with the theoretical approach adopted in this thesis, namely that the considerations of key decision makers with respect to their national, organisational, domestic and personal interests are an essential part of understanding state foreign policy. While interviews with bureaucrats were used in these ways, interviews with others, like academics and journalists, were used differently. It was helpful to ask for their subjective and objective views about the events of the period in order to reconstruct the perspectives of the Japanese intellectuals concerned with Japan's contemporary foreign policy.

A total of 27 interviews were conducted in Japan over two periods (May 10 – June 1, 2000 and March 27 - April 4, 2001). Among the interviewees were 12 bureaucrats, 1 politician, 2 academics and 2 journalists in 2000, and 4 bureaucrats, 4 academics and 1 employee of the World Bank in 2001.<sup>61</sup> In addition, an interview with Eisuke Sakakibara, who is one of the key policymakers, was conducted in September 2001 in London. Some of the names of the interviewees, mostly bureaucrats, are not disclosed because they requested anonymity.

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<sup>61</sup> The detailed list is attached at the back of the thesis.

17 interviews out of 27 were conducted with bureaucrats at various levels mainly in the Ministry of Finance (MOF) and the MOFA. This selection of interviewees was justified by the fact that these bureaucrats were considered to be the key decision makers in the cases covered in this thesis. In a general sense, politicians and private actors have also played an important role in Japanese foreign policy depending on the issue, as argued before, but as far as the cases analysed here are concerned, bureaucrats were the major players. However, it does not follow that the voices of politicians and private actors were unimportant to this research, as domestic opposition could make it difficult for bureaucrats to advance their agendas. Therefore, the stances of political and private actors, such as business organisations, will be referred to as much as possible, by using secondary sources like newspaper archives or their internet homepages. In fact, this approach is more effective than interviewing politicians and business people extensively, considering the fact that it is difficult to identify the political and private figures involved; unlike in the case of some trade policies, it is not clear that identifiable business interests pushed for certain foreign policy outcomes. Also, even if it could be possible to name some figures, given the usual reticence of business people about declaring their interests, it would be difficult to obtain more information than had been officially announced concerning how they were involved in or influenced policymaking processes.

On the other hand, documentary research was vital to the writing of the narrative of the thesis. Important sources include official announcements and explanations by the government,<sup>62</sup> white papers, official agreements, joint statements of several international and regional meetings, journals in general and government-related periodicals in particular,<sup>63</sup> government councils' records, newspaper archives<sup>64</sup> and the

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<sup>62</sup> Most of these materials could be obtained from ministries' homepage through the internet.

<sup>63</sup> Government related journals include *Fainansu* by the MOF and *Gaiko Forumu* by the MOFA.

<sup>64</sup> The following papers were mainly referenced: Japanese dailies (*Nikkei*, *Asahi*, *Yomiuri*, *Mainichi* and *Sankei*), East Asian papers (*Korea Herald*, *Straits Times*, *New Straits Times*, *Bangkok Post*, *South China Morning Post*, *Jakarta Post*) and *Financial Times*.

scholarly literature. Sakakibara's memoir<sup>65</sup> published in April 2000 is worth special reference. It provided an essential account of Japan's policies towards the East Asian financial crisis.

### **Chapter outline**

As mentioned above, the next chapter (Chapter 2) looks thematically and chronologically at Japan's postwar regional policy. By examining what Japan has done in its regional relations, it shows how Japanese foreign policy has shifted throughout the postwar period. Specifically, it is discussed how and why Japan has increasingly become more willing to take independent initiatives in the region, economically as well as politically. Also, analysing Japan's regional policy naturally leads to the consideration of its US relations as well. The chapter also gives some thought to the issue of how Japan has been quietly and incrementally pursuing its policy agendas under international, regional and domestic constraints.

Chapter 3 demonstrates the ideological contrast between the Japanese approach to economic development and systemic transition and the Washington and the Post-Washington Consensus. It is explained why Japan has become increasingly vocal in its policies since the late 1980s, and how arguments between Japan and the institutions promoting the Washington Consensus, particularly the World Bank, developed throughout the 1990s. The chapter also argues that these were at the root of the differences between their positions on the causes of the East Asian financial crisis. Thus, this chapter not only offers evidence of Japan's increasing assertiveness in its foreign policy, but it also provides some important background for the understanding of Japan's positive policies towards the East Asian financial crisis as well as its growing interest in regional frameworks discussed in Chapters 4 and 5. Furthermore,

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<sup>65</sup> Eisuke Sakakibara, *Nihon to Sekai ga Fuructahi [the day when Japan and the world shook]* (Tokyo: Chuokoronshinsha, 2000).

the discussion of this chapter suggests that the changes in Japanese foreign policy identified before are based on ideological factors to a certain extent.

Chapters 4 and 5 discuss Japanese policies towards two specific cases, the East Asian financial crisis and the development of East Asian regionalism. They give detailed narratives of Japan's policies towards these issues, and consider the contexts of their adoption and implementation by the Japanese government. These chapters again contribute to the argument about Japan's increasing willingness to take the initiative in the region, and introduce the arguments about Japan's style of foreign policy in Chapter 6.

Chapter 6 recapitulates and examines more critically the previous discussions on the style of Japanese foreign policy. Then, the concluding chapter recapitulates the arguments of the thesis, and reconsiders the implications of these arguments for the present and future Japanese foreign policy.

#### **Original contributions**

This thesis makes the following contributions to knowledge. Firstly, the thesis advances the discussions about Japanese foreign policy reviewed in this chapter. It looks at the subject from the point of two gradual changes in Japan's policy throughout the postwar period, namely more initiative taking in the political and security areas, and a more independent East Asian policy, neither of which have been systematically discussed yet. This argument of the thesis can also contribute significantly to the literature on Japan-US relations as well as Japan-East Asia relations in that, without this new understanding of Japanese foreign policy, it is impossible to grasp the correct nature of those relations.

Secondly, the thesis also advances the discussion about the style of Japanese foreign policy. This is still an underdeveloped subject theoretically and empirically, discussed



by only a few scholars so far. However, this subject can potentially lead to more extensive arguments on the nature of leadership, as it suggests a completely different concept on leadership from what is traditionally assumed in IR. While the thesis contributes to the development of that discussion empirically, it is believed that the empirical evidence provided in the thesis will provoke more discussion on this theme.

Thirdly, detailed narrative analyses of Japan's policies towards the important events in the 1990s, which have not been subject to sufficient scholarly scrutiny despite their great potential for offering insight into Japanese foreign policy, make a significant empirical contribution to the study of Japanese foreign policy. Furthermore, these empirical discussions, which are concerned with significant regional developments in East Asia, contribute to the study of regionalism as well. Because of its dominant economic status in the region, Japan's stance on regionalism has greatly affected the development of regional frameworks, and, in fact, its ambiguous attitude towards an East Asian Economic Grouping (EAEG, later EAEC) in the early 1990s was one of the causes that the idea was not realised at that time, as discussed in Chapter 2. Therefore, analysing Japan's policy with respect to regionalism can have great implications for the research of East Asian regionalism. This is particularly significant because there is a relatively small literature about regionalism in Asia and Asia Pacific, compared with Europe and the Americas, and even less about regionalism in East Asia. In addition, analyses about East Asian regionalism could provide a new conception of 'monetary regionalism' for the study of regionalism, where so far the focus has been mainly on trade, investment and security. The thesis focuses on the analysis of this area in Chapter 5.

In the next chapter, the discussion moves on to the historical background of Japanese

regional policy; it examines the shift in Japanese policy during the postwar period and considers what has caused the shift.

## CHAPTER 2

### Historical Review of Japan's East Asian Policy in the Postwar Period

This chapter looks at Japan's East Asian policy in the postwar period historically and thematically. It is, of course, not a comprehensive account of Japanese foreign policy, as such a task would require more than a whole book. The aim of the chapter is to set the background for the arguments of the thesis introduced in the previous chapter, namely how the nature of Japanese foreign policy has been changing throughout the postwar period and how Japan has been quietly pursuing its policy agendas. By looking at what Japan has actually done in its relations with East Asian countries, it considers how and why Japan has increasingly become more willing to take the initiative in the region and how it has pursued its policy objectives under the domestic, regional and international constraints imposed on it. Equally, this chapter shows that Japan has expanded the range of its initiatives, from the economic to the political area. This examination, in turn, will lead to an evaluation of how independent Japan's East Asian policy has been, particularly in connection with its US relations, the considerations Japanese policymaking agents have taken into account in deciding the country's foreign policy and how much the importance of East Asian countries in Japanese foreign policymaking has risen during the postwar period.

The chapter is divided into three sections corresponding to three periods: (1) 1945 to the 1960s, (2) the 1970s, and (3) from the 1980s up to the present. Although, of course, some of the issues run throughout two or more of these periods, this division is necessary particularly because the 1970s can be regarded as a turning point in Japanese foreign policy due to some sea changes in international affairs. The 1990s also saw significant changes in Japanese policy, but are discussed together with the 1980s, as some changes in the 1990s originated in the 1980s.

### 1945 to the 1960s

Japanese foreign policy during this period was basically characterised by the pursuit of economic development whilst maintaining a political low profile and staying within the limits set by the dependence on US hegemony. This Japanese diplomatic principle was first advocated by the Prime Minister Shigeru Yoshida and was then entrenched by his two disciples, Hayato Ikeda and Eisaku Sato. As discussed in the following, this policy was a skilfully conceived strategy to pursue the national interest given the situation Japan faced at the time, namely a totally devastated economy due to the war and the strengthened bipolarity of the Cold War. However, while this policy enabled Japan to devote itself to its economic development, the heavy dependence of Japan on the US gave the US great leverage over Japanese foreign policy. Accordingly, Japan's East Asian policy, which was conducted mainly through economic means, tended to be closely linked with US Cold War strategies.

### The Yoshida Doctrine

Yoshida assumed the second term in the office of Prime Minister in 1948 (until 1954), and the policy lines that he worked out during this time greatly influenced postwar Japanese foreign policy. His main tenets, which later became known as the Yoshida Doctrine, were concentration on economic development with very limited spending on defence. Japan was under the US security umbrella and had generous access to US markets, both of which Japan was able to obtain in exchange for its support for US foreign policy in the Cold War. This strong dependence on the US has long constrained Japanese foreign policy and it still does, although some of the tenets have been greatly modified and diluted since the 1970s.

It should be noted that the Yoshida's tenets were not what the US imposed. On the contrary, they can be regarded as Yoshida's skilful and clever strategy based on his

ideas about Japan's national interest under the constraints at work on Japan. Kenneth Pyle points out that Japan's political passivity in the postwar era was "the product of a carefully constructed and brilliantly implemented foreign policy [that Yoshida set forth]."<sup>1</sup> In fact, the US urged Japan's rearmament during the Korean War, and John Foster Dulles, special emissary of the Secretary of State, firmly demanded Japan to establish a large military force. However, Yoshida, who saw the Cold War reality as Japan's opportunity and tried to take advantage of it, adamantly resisted Japan's rearmament for the following reasons: the possibility that a militarist could seize power, limited economic capability to spend on rearmament, the fear that the resulting economic plight might lead to social unrest (as the Communists wished), and expected opposition from the neighbouring countries.<sup>2</sup>

In the end, the US-Japan Security Treaty, which allowed Japan to stick to a minimalist defence policy, was concluded on the same day as the San Francisco Peace Treaty, in September 1951. The treaty grants to the US the right to use Japanese bases and provides for a US military presence in Japan. The original treaty, in effect, merely stated that US forces *may be* utilised to defend Japan, and thus it was not a clear US commitment to guarantee Japan's security. However, Kazuya Sakamoto argues that regardless of this provision the treaty enabled Japan to depend on the US for its security, because it was almost certain that the US would defend Japan in case of emergency given the US strategic interests in the Cold War. Also, the existence of US bases in Japan itself could act as a deterrent.<sup>3</sup> Although Yoshida had to compromise to some extent, for instance by allowing some rearmament in the form of the Self-Defence Forces (SDF), "Yoshida's firmness spared Japan military involvement in the

<sup>1</sup> Kenneth B. Pyle, "Japan, the World, and the Twenty-first Century," in Takashi Inoguchi and Daniel I. Okimoto, eds., The Political Economy of Japan: Volume 2, the Changing International Context (Stanford: Stanford University Press, 1988), p.452.

<sup>2</sup> Takeshi Igarashi, Nichibei Kankei to Higashiaia [Japan-US relations and East Asia] (Tokyo: Tokyo University Press, 1999), pp.96-97.

<sup>3</sup> Kazuya Sakamoto, "Dokuritsukoku no joken [the conditions of an independent country]," in Makoto Iokibe, ed., Sengo Nihon Gaikoshi [the diplomatic history of postwar Japan] (Tokyo: Yuhikaku Aruma, 1999), p.72.

war and allowed it instead to profit enormously from procurement orders [during the Korean War]."<sup>4</sup>

At the same time, the Security Treaty, which was revised in 1960 by the Kishi cabinet,<sup>5</sup> has framed and constrained postwar Japanese foreign policy. By signing the treaty, Japan was thoroughly embedded into the Cold War framework on the side of the West. Furthermore, the treaty has made Japan highly vulnerable to US pressures, and it has shaped not only security relations between the two countries, but also their overall relations in the postwar period. That is to say, the 1960 Security Treaty is a highly unequal one in the sense that it sets out only the US contribution to Japan's defence, and not the other way round. It recognises as the area for common defence only the territories under the administration of Japan (Article five), and does not include the US territories in the Asia Pacific region, let alone the US mainland. Of course, there are some reasons why the US has accepted this unequal relationship. Japan has provided bases for the US and since 1978 has paid the substantial financial cost<sup>6</sup> for the stationing of US troops in Japan. Importantly, the bases Japan has provided are of considerable significance to the US strategically. Based on the security treaty (Article six)<sup>7</sup> and its interpretations, the US can actually use these bases with great flexibility; their use is not confined to the defence of Japan but can be extended to wider global strategic operations, which is a significant benefit that the US reaps from the treaty.<sup>8</sup> Another benefit of the security treaty for the US is that it can expect Japan to take

<sup>4</sup> Pyle, "Japan, the World, and the Twenty-first Century," p.454.

<sup>5</sup> The revised treaty stipulated the obligation of the US to defend Japan, and eliminated the article that had permitted the use of US forces to put down large-scale internal riots and disturbances in Japan, which had been highly controversial and antagonised many Japanese in the 1950s.

<sup>6</sup> This amounts to around 10 percent of Japan's annual defence budget (Hook et al. *Japan's International Relations*, p.134.)

<sup>7</sup> It reads: for the purpose of contributing to the security of Japan and the maintenance of international peace and security in the Far East, the United States of America is granted the use by its land, air, and naval forces of facilities and areas in Japan.

<sup>8</sup> Akio Watanabe, "Nichibei domei 50 nen no kiseki to 21 seiki cno tenbo [the path of the US-Japan Security Treaty during the last 50 years and a prospect for the twenty first century]," *Kokusai Mondai* 490 (2001), pp. 30-31.

collaborative actions in case of emergency. This was taken further when the two governments signed the Guidelines for US-Japan Defence Cooperation in 1978, which provided for researching concrete military cooperation between the two countries. Nevertheless, despite these benefits to the US flowing from the security treaty, under this system, Japan is, after all, a junior partner. It is the US that controls the security fate of Japan. Japan puts the matter of its own security in the hands of the US and cannot affect decision-making even about critical defence issues. Such an unbalanced relationship inevitably has made Japan support US policy and has made it vulnerable to US requests.

#### Japan's Asian policy in the 1950s

Meanwhile, Asian policies gradually began to come into Japan's diplomatic agenda in the mid-1950s, although they were not very substantial during the 1950s. It is noteworthy that the first edition of the MOFA's bluebook, published in 1957, stated the association with Asia as one of the three basic principles of Japanese international relations, together with United Nations (UN) centrism and the association with the West.<sup>9</sup> Watanabe points out that the two principles of the association with Asia and the

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<sup>9</sup> What constitutes the Asian region is a highly debatable issue. Regions are cognitively constructed, and so is the Asian region. It may include Australia and even Russia. Alternatively, the term Asia Pacific is sometimes used. Even within the Japanese government, the term has been used differently depending on the time and the issue. More recently, it has been used interchangeably with East Asia.

What the term 'Asia' stood for in the first bluebook was not clearly stated, but the Japanese government generally thought of a more expansive area in the early postwar period than now, namely it was inclusive of South Asian countries like India. Also, when Japan referred to economic cooperation to Asia or Asian diplomacy in those days, China, the Korean Peninsula and Communist Indochina were left out. That is to say, Japan had to give up links with Communist countries in the region due to the Cold War reality. Also, Japan's relationship with South Korea, in spite of the fact that South Korea was part of the non-Communist world, was a thorny one because of deep animosity on both sides. The two countries' relationship was not normalised until 1965, when they signed the Treaty on Basic Relations. (Mie Ohba, "Chitkishugi to nihon no sentaku [regionalism and Japan's choice]," in Suchiro and Yamakage, eds., *Ajia Seijikeizairon*, p.262, and Akio Watanabe, *Ajia Taiheiyō no Kokusai Kankei to Nihon [International relations in Asia Pacific and Japan]* (Tokyo: Tokyo University Press, 1992), p.89.)

This thesis uses the term 'East Asia' instead of Asia, since East Asia, as defined in the Introduction, is the region with which the postwar Japanese foreign policy has been deeply concerned. However, in this section the term 'Asia' is used in recognition of the realities of the

association with the West came out as a result of serious discussions about Asia's position in Japan's diplomatic policy, namely about how the relationships with the West, particularly the US, and those with Asia could be balanced.<sup>10</sup> Since then this has been the key issue of Japanese foreign policy. Pempel puts it as follows: "Japan's relationship with Asia has of course been complicated, but Japan's simultaneous relationship with the West has added further to the complexity. This duality has been an essential feature of Japanese foreign policy for the last century and more."<sup>11</sup>

Japan's Asian relations have been, to a significant extent, dominated by its economic interests throughout the postwar period, as will be shown in this chapter, and this applies particularly to Japan in the 1950s, when the focus was on economic rehabilitation. The resumption of economic relations with Asian countries became a rather urgent and important issue for Japan, as they had provided the majority of natural resources and important markets before the war, even though their economies were very small and less attractive than the rich Western markets. Japan's interest in restoring Asian relations is evidenced in the first diplomatic bluebook mentioned above, which acknowledged that there was a close complementary relationship between the Japanese and the Asian economies, and without Asia's prosperity and peace Japan would not be prosperous.<sup>12</sup>

In addition, the US, which was concerned about Japan's isolation in the region, was supportive of Japan's closer links with non-Communist Asian countries. For the US, who wished to keep Japan in the Western camp, to increase the importance of Japan's role as an ally, and to make Japan 'the workshop of Asia', Japan's economic rehabilitation was an urgent issue. In this context, the Truman administration took

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period analysed.

<sup>10</sup> Watanabe, *Ajia Taiheio*, pp.84-85.

<sup>11</sup> T. J. Pempel, "Transpacific Torii: Japan and the Emerging Asian Regionalism," in Peter J. Katzenstein and Takashi Shiraishi, eds., *Network Power: Japan and Asia* (Ithaca: Cornell University Press, 1997), p.50.

<sup>12</sup> Cited in Watanabe, *Ajia Taiheio*, p.86-87.



seriously the consolidation of Japan's economic relations with Asian countries, which would ensure Japan's economic recovery and would prevent Japan from moving towards Communism.<sup>13</sup>

Against this background, Japan resumed its Asian policies. Prime Minister Yoshida, who was more interested in Western relations,<sup>14</sup> but recognised that developing the Asian economies would contribute to the Japanese economy,<sup>15</sup> proposed some Asian policies concerning economic assistance for Southeast Asia. Most importantly, Japan started the negotiations for reparations payments with Southeast Asian countries as part of its economic assistance programme in 1954. Also, it provided technical assistance through participating in the British Colombo Plan implemented in 1954. The restoration of Japan's ties with the region was not easy however. The negotiations for reparations payments with the Southeast Asian countries were not smooth, and took until the end of the 1950s to complete.<sup>16</sup>

Although Japan did not try to re-establish a significant relationship with China, which had been a vital trading partner before the war as a provider of natural resources and markets, the two countries did maintain some trading relations. Japan was not able to seek diplomatic relations with China and instead had to acknowledge the Taiwan government, following the US policy. However, it resumed trading ties with China in 1950 through private channels, based on the principle of *seikei bunri* that Yoshida pursued then. Nester stresses that this policy of Yoshida was greatly motivated by Japan's economic interests, citing Yoshida's remark: "I don't care whether China is red

<sup>13</sup> Igarashi, *Nichibei Kankei*, pp.116-121.

<sup>14</sup> Takashi Shiraishi, "Japan and Southeast Asia," in Katzenstein and Shiraishi, eds., *Network Power*, p.177.

<sup>15</sup> Suco Sudo, "Nihongaiko ni okeru ASEAN no ichi [ASEAN's position in Japanese diplomacy]," *Kokusai Seiji* 116 (1997), pp.150-151.

<sup>16</sup> The negotiations for reparations reached an agreement with Burma in 1954, with the Philippines in 1955, with Indonesia in 1958 and with South Vietnam in 1959. Japan also made agreements for economic cooperation with Laos (1958), Cambodia (1959) and Thailand (1962). (Chihiro Hosoya, *Nihon Gaiko no Kiseki [the track of Japanese diplomacy]* (Tokyo: NHK Books, 1993), pp.163-165)

or green. China is a national market and it has become necessary for Japan to think about markets.<sup>17</sup> Yet, this relationship was disrupted in 1958, mainly because the then Prime Minister Nobusuke Kishi's pro-Taiwan policies angered China.<sup>18</sup>

Prime Minister Kishi (1957-1960) adopted a more positive approach to Asia than Yoshida and his other predecessors. Kishi chose Southeast Asia, rather than the US, as the destination of his first official overseas visit in 1957; this was the first visit to that region by a Japanese Prime Minister after the Second World War, and he made another trip to Southeast Asia in the same year. Also, he proposed a Southeast Asia Development Fund in 1957, which was an attempt to develop the Southeast Asian economy by relying on US financial resources. This proposal was not realised because the US did not support the fund.

This relatively assertive Asian policy of Kishi was motivated by Japan's economic interests and its interests in relation to the US. He understood both the short-term and the long-term importance of the region to the Japanese economy.<sup>19</sup> In fact, during his visit the reparations negotiations with Indonesia were concluded and the Japanese businesses began to turn their eyes to that country. In addition, his positive stance on Southeast Asia fits his style of simultaneously being an 'Asianist' and a 'pro-Americanist'. In other words, he found a positive Southeast Asian policy to be the area where those two norms could coexist.<sup>20</sup> On the one hand, Japan could play a certain leadership role, particularly in South East Asia, which satisfied his Asianist position, though within the international framework set by the US. On the other hand, Japan's contribution to the development of non-Communist Southeast Asian countries was not inconsistent with US global strategies.

<sup>17</sup> Nester, "The Third World Japanese Foreign Policy," p. 78.

<sup>18</sup> Later the relationship between Japan and China was broadly based on the *seikei bunri* policy, whose implementation was occasionally disrupted, until they normalised their relations in 1972.

<sup>19</sup> Shiraishi, "Japan and Southeast Asia," p. 177.

<sup>20</sup> *Ibid.*, pp. 176-177.

On the whole, Japan's Asian policy during this period was a limited success at most. Japan began to re-establish relations with Asian countries through reparations payments and economic assistance, but they were modest in size and political aspects were muted. Although the economic importance of Asia was widely recognised among Japanese policymaking agents, relations with rich Western countries were given priority over relations with the undeveloped Asian countries. Also, Japan's Asian policies at that time were to a large extent associated with US interests, and even the policies of Kishi, who is remembered as an Asianist, were quite concerned with US strategies.

It must be also noted here that, although Japan normalised its relations with the Southeast Asian countries through the agreements about reparations payments, the memories of Japan's occupation of the region were not easily erased. Indeed this has been a continuing constraint on Japanese foreign policy throughout the postwar period. Anti-Japanese feelings were, and still are, most conspicuous in China and the Korean Peninsula. In Southeast Asia, the degree of hostility against Japan seems to have varied among countries: it was largest in the Philippines and Singapore, where there was a great deal of suffering during the Japanese colonial rule, while in Thailand and Malaysia, where Japan's aggressions were targeted not on the whole society, but a part of it, specifically the Chinese, the tension was relatively low compared with others.<sup>21</sup> However, in general there was a very hostile atmosphere against Japan in Southeast Asia.

#### The 1960s – Solidifying the Yoshida Doctrine

During the 1960s, the Yoshida Doctrine, which recommended a low political profile with the highest priority given to economic development, became institutionalised in

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<sup>21</sup> Suco Sudo, Tonari Ajia Kokusai Kankei no Kozo [the framework of international relations in Southeast Asia] (Tokyo: Keisho Shobo, 1996), pp.187-188.

the ruling Liberal Democratic Party (LDP) as *hoshu honryu*, or the conservative policy line, by two prime ministers, Ikeda and Sato, both protégés of Yoshida. A broad national consensus on economic growth was also formed at the same time. Kishi's administration took up the political issues of Japan's rearmament and constitutional change, and this ended with a political crisis in 1960, when he forced a Diet vote on a revised security treaty. Ikeda, Kishi's successor, returned to Yoshida's lines, but emphasised economic issues more than Yoshida had done. He set forth and implemented the famous Income Doubling Plan, which was aimed at doubling Japan's national income in a decade and resulted in its postwar miracle. Subsequently, Sato, who was Prime Minister from 1964 to 1972, further developed the Yoshida Doctrine. Under the concept of the 'peace nation', he formulated two sets of principles: (1) the three non-nuclear principles, which provided that Japan would not produce, possess, or introduce nuclear weapons onto its territory, and (2) the Three Arms Export Principles, an effective ban on the export of weapons. Muramatsu and Krauss note that there was no consensus about the Yoshida Doctrine in the 1950s even among the political elite, much less in the public, and that "[it] was not until at least the mid-1960s that the policy line came to be fully developed and institutionalised among the conservative elite and to enjoy widespread public support."<sup>22</sup>

While economic growth was undoubtedly the highest priority, which explains many of the Japanese foreign policies of that time, there was another important agenda as well, namely enhancing Japan's international status and restoring its self-respect.<sup>23</sup> Accordingly, the government put its energy into strengthening economic relations with Western countries and rejoining the international community, by obtaining

<sup>22</sup> Michio Muramatsu and Ellis S. Krauss, "The Conservative Policy Line and the Development of Patterned Pluralism," in Kozo Yamamura and Yasukichi Yasuda, eds., *The Political Economy of Japan: Volume I the Domestic Transformation* (Stanford: Stanford University Press, 1987), p.525.

<sup>23</sup> Dennis T. Yasutomo, *Japan and the Asian Development Bank* (New York: Praeger, 1983), p.25, and Masayuki Tadokoro, "Keizai taikoku no gaiko no genkei [the prototype of diplomacy as economic power]," in Iokibe, ed., *Sengo Nihon Gaikoshi*, p.114.

membership of the International Monetary Fund (IMF) and the General Agreement on Tariffs and Trade (GATT), as equals with Western countries. Whilst marching towards economic success, Japan had achieved many of its diplomatic aims by 1964. It became an Article 8 member of the IMF, joined the Organisation for Economic Cooperation and Development (OECD) and its Development Assistance Committee (DAC), and participated in the Kennedy round of GATT as well as the United Nations Conference on Trade and Development (UNCTAD). In addition to achieving these objectives of economic development and more prominent international status, Prime Minister Sato had another specific agenda, namely realising the return of Okinawa to Japan,<sup>24</sup> and he devoted great energies to this issue.

Considering these goals of Japanese foreign policy, the importance of US support for realising them, and Japan's security dependence on the US, it was not surprising that Japan's policy was influenced by US wishes to a great extent, and its US relations constrained significantly Japanese foreign policy. Accordingly, Japan's approaches towards Asia were closely linked with US strategies, as demonstrated below.

#### Regional policies in the 1960s

##### *(1) the beginning of economic assistance*

While making an effort to expand Western relations, Asia was by no means ignored by Japan.<sup>25</sup> Most prominently, Japan began to expand economic assistance to the region. Subsequent to reparations payments, Japan started to gradually increase both the absolute amount of overseas development assistance (ODA), through yen loans in the mid-1960s, and the proportion of it that was given to Asia. Some of the institutions needed to implement these policies, such as the Overseas Economic Cooperation Fund

<sup>24</sup> Okinawa was returned to Japan finally during Sato's premiership in 1972.

<sup>25</sup> From around the mid-1960s, South Asia became excluded from Japan's focus with respect to its Asian policy, and Japan's interest turned more exclusively to non-Communist Southeast Asia (Ohba, "Chiikishugi," p.264).

(OECF) and the Overseas Technical cooperation Agency (later Japan International Cooperation Agency, or JICA), were created during Ikeda's stay in office. Also, in 1965 Japan normalised its relationship with South Korea and began to provide grant aid and yen loans.

Pressures from other developed countries, particularly the US, to make Japan take on a greater economic burden in international society were an important reason for Japanese policymakers' interest in regional matters at that time. The basic Asian strategy of the US was to ensure the political stability of the non-Communist Asian countries as part of its containment policy against Communism. The Johnson Cabinet began to recognise that military assistance alone could not achieve stability and to emphasise the need for economic assistance.<sup>26</sup> Accordingly, along with the intensification of the Vietnam War and the deterioration of its balance of payments, the US began to expect Japan to play a larger role in Southeast Asia. In particular, unlike Australia and South Korea, Japan could not dispatch its military forces for Constitutional reasons, while it benefited from the Vietnam War economically. It was no wonder that the US strongly wished Japan to support US policy from the economic side, and pressed Japan to share more in the economic burden to keep regional stability.<sup>27</sup> In addition, for the Sato Cabinet, whose priority was the return of Okinawa, "proving that Japan was a loyal and reliable ally [to the US] was crucial to achieving this goal."<sup>28</sup>

However, Japan was also greatly motivated by the importance of the region to its own national interest. Many studies show that Japanese assistance to the region was linked directly to Japan's economic benefit. MITI's economic cooperation report in 1958 stressed the necessity to promote economic assistance to Southeast Asia given the

<sup>26</sup> Susumu Yamakage, "Shoki ASEAN saiko [reconsideration on early ASEAN]," *Kokusai Seiji* 116 (1997), pp.19-20.

<sup>27</sup> Tadokoro, "Keizai taikoku," pp.132-133, and Hosoya, *Nihon Gaiko*, p.167.

<sup>28</sup> Shiraishi, "Japan and Southeast Asia," p.180.

complementary nature of their economies. The report spelled out two objectives of the economic assistance, namely trade promotion and resource acquisition for Japan. In fact, the reparations were paid in the form of products and services provided by Japanese firms instead of cash,<sup>29</sup> which increased the export opportunities of Japanese firms. Also, a large part of the economic assistance (most of it consisted of yen credits) was tied to Japanese business, specifically the purchase of Japanese goods and services, thereby opening Asian markets to Japanese companies and creating ever more important bilateral economic links between Asia and Japan.<sup>30</sup> Hosoya argues that by the early 1970s Japan became the largest trading partner for most Southeast Asian countries, and its role in direct investments and economic assistance increased dramatically, which led to its playing a leading role in the region in the economic sphere together with the US.<sup>31</sup> Shiraishi points out that this was "the beginning of Japan's postwar penetration into Southeast Asia", and that "[the] close cooperation between government and the private financial and commercial sectors was the hallmark of economic cooperation."<sup>32</sup>

In addition to these direct economic benefits, there were also political considerations in Japanese aid policy. The Japanese government began to associate Japan's security with political stability and economic prosperity in neighbouring countries. Watanabe points out that Japanese leaders had recognised the poor economic situation and the political instability in Southeast Asia, and they had become increasingly concerned that the plight in the region might lead to a crisis.<sup>33</sup>

Furthermore, Japan's positive approach to economic assistance was linked to the objective of enhancing its international status as well. In other words, by contributing

<sup>29</sup> The Japanese government paid Japanese firms in yens for what Asian countries bought from them.

<sup>30</sup> Pempel, "Transpacific Torii", p.56.

<sup>31</sup> Hosoya, *Nihon Gaiko*, pp.172-173.

<sup>32</sup> Shiraishi, "Japan and Southeast Asia," p.179.

<sup>33</sup> Watanabe, *Ajia Taiheigo*, p.91.

to the development of Asia by deploying the economic resources that it had achieved by that time. Japanese leaders wished to obtain some respect and status in international society.<sup>34</sup> Prime Minister Ikeda realised that Japan was able to assist the region's economic development given its pre-eminent economic position in Asia and its experience of the postwar development.<sup>35</sup> Southeast Asia in particular was the region where Japan could pursue such a positive policy, because relations there were easier compared with the hostile relationship with South Korea and the limitation of China policy under the Cold War framework.

Therefore, it can be argued that the growth of Japan's economic assistance to Asia in this period was not only a reaction to US requests, but was also closely related to Japan's economic as well as political interests.

*(2) Japan's multilateral approach in Asia in the 1960s*

In addition to the expansion of economic assistance, Japan took some initiatives in establishing regional frameworks. Japan's motivations for these policies largely overlapped with those for economic assistance, namely Japan's national interests, particularly the belief of the Japanese policymakers that contributing to regional matters could enhance Japan's national status, as well as US wishes.

Significantly, Japan attempted to play an important role in the establishment of the Asian Development Bank (ADB). The project to found the bank in the early 1960s appealed to Prime Minister Sato, who wanted to show the US Japan's commitment to Asia, as argued above, and thus to be seen to be taking a more positive approach in the region.<sup>36</sup> However, Japan's approach to the ADB was not enthusiastic at the outset,

<sup>34</sup> Susumu Yamakage, "Aji taiheiyō to nihon [Asia Pacific and Japan]," in Akio Watanabe, ed., *Sengo Nihon no Taigaisaisaku [Japanese foreign policy in the postwar period]* (Tokyo: Yuhikaku, 1985), pp. 141-142.

<sup>35</sup> Yasutomo, *Japan and the Asian Development Bank*, pp. 26-27.

<sup>36</sup> The following argument about the ADB draws largely on Yasutomo, *Japan and the Asian*



despite the then Prime Minister Ikeda's great interest in it. This was mainly because of the concern of MOF officials, who were mainly in charge of this matter, that the activities of the World Bank would be reduced and instead Japan would have to assume too many economic responsibilities for the region. Consequently they strongly insisted on the participation of the US and other developed countries. This position of the MOF officials reflected Japan's basic regional approach at that time, namely promoting the collaboration of Pacific developed countries for the development of Asia. It was not until the US decided to participate<sup>37</sup> and the fear that Japan would be the main contributor had lessened that Japan no longer hesitated to become involved. Japan eventually agreed to be the largest contributor together with the US, to have the bank located in Tokyo and to have a Japanese president, and began to participate positively in every process to found the bank.

However, it turned out that this relatively high-profile initiative of Japan was not welcomed by Asian countries. Japanese policymakers' strong hope to have the bank's headquarters in Tokyo was not realised as Asian countries chose Manila, although Japan obtained the presidency.<sup>38</sup> The Asian countries were quite sceptical about Japan's leadership and dominance in the region. This negative response of the Asian countries to Japan's initiative was a reaction against Japan's way of giving aid, which greatly benefited Japanese firms, as discussed above. But, more importantly, it was a reflection of the anti-Japanese sentiment prevalent among the Asian people, a legacy of the war, as well as the Asian governments' rejection of Japanese leadership itself.<sup>39</sup> Indeed, this sentiment of the Asian countries has long constrained Japanese initiatives in the region throughout the postwar period, and has forced Japan to keep re-assuring its Asian neighbours that it is not trying to dominate the region.

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#### Development Bank

<sup>37</sup> The turning point of US policy came with Johnson's address at the Johns Hopkins University in April 1965. Since then the US supported Asian institutions by Asian initiatives. (Yasutomo, *Japan and the Asian Development Bank*, p.67, Yamakage, "Shoki ASEAN," p.19)

<sup>38</sup> Since the establishment of the ADB, the Japanese have occupied the post of president.

<sup>39</sup> Yamakage, "Ajia Taiheiyō," pp.147-151.

In addition to this active role in the creation of the ADB, Japan convened the Ministerial Conference for Economic Development of Southeast Asia (MEDSEA) in 1966. It was the first postwar international conference that Japan organised, and was seen as an institution potentially dedicated to facilitating Japanese economic assistance to the region.<sup>40</sup> Japanese officials, shocked by the defeat in the ADB headquarters contest, intended to utilise the conference, which they thought was less controversial than the ADB, to create a better relationship with Southeast Asian countries.<sup>41</sup> Also, by taking the initiative for this conference, Japan tried to display its positive stance on Asia to international society.<sup>42</sup> However, Japan was again not very successful. The conference met once a year until 1974, but disappeared later on. There were quite frequent disagreements with respect to the projects that Japan tried to advance,<sup>43</sup> and the Southeast Asian leaders rather preferred their own institution, ASEAN.<sup>44</sup>

Moreover, Japan participated positively in the Asia Pacific Council (ASPAC), which was established in the same year as MEDSEA through the initiative of South Korean President. ASPAC had a strong anti-communist, or anti-China, and pro-South Vietnam bias, given the fact that all the participating countries were American allies except Malaysia, and was in fact to complement and back up US foreign policies, specifically its strategies on the Vietnam War.<sup>45</sup> Whilst it tried to dilute these military characteristics, Japan attempted to use ASPAC as a body of economic cooperation.<sup>46</sup> However, this organisation was also suspended by the mid-1970s mainly due to the rapprochement between the US and China and the US withdrawal from Vietnam.

<sup>40</sup> Yoichi Funabashi, *Asia Pacific Fusion: Japan's Role in APEC* (Washington, DC: Institute for International Economics, 1995), p.228.

<sup>41</sup> Susumu Yamakage, "Will Japan Seek Regionalism?" in Michael S. Steinberg, ed., *The Technical Challenges and Opportunities of a United Europe* (London: Pinter, 1990), pp.152-153.

<sup>42</sup> Tadokoro, "Keizai taikoku," p.132.

<sup>43</sup> Yamakage, "Shoki ASEAN," p.23.

<sup>44</sup> Yamakage, "Will Japan Seek," pp.152-153. ASEAN was founded in 1967 and was originally composed of Indonesia, Malaysia, the Philippines, Singapore and Thailand.

<sup>45</sup> Yamakage, "Shoki ASEAN," p.21.

<sup>46</sup> *Ibid.*, p.21.

These early Japanese regional initiatives and their negative consequences are noteworthy, as they had a great impact on Japan's regional policies later on. Japanese leaders understood that Japan's high-profile initiatives were not welcomed in Asia, and learned to adopt a low-profile approach.<sup>47</sup> Japan accepted that it had to reassure its Asian neighbours that it was not seeking to dominate the region otherwise it would have to face difficult opposition to its policies. It gave up trying to form a regional framework by its own initiatives until recently, and instead ASEAN, which Japanese policymakers had originally disliked because they feared that it would conflict with Japan's interests,<sup>48</sup> became the main focus of Japan's Southeast Asian policy.<sup>49</sup> Since then, Japan's regional approach has been very cautious and it has not tried to take overt initiatives.

### *(3) Early development of Asia Pacific cooperation*

Japan became interested in another approach to regional issues during this period, namely Asia Pacific cooperation. This approach began to penetrate into Japanese policymaking and intellectual circles and to be seen as the basis of regional cooperation from around this time, and eventually developed into the Asia Pacific Economic Cooperation (APEC), which will be discussed in a subsequent section in this chapter.

However, the concept of Asia Pacific cooperation was not developed at the official level initially. It was based primarily on a series of academic studies since the early 1960s, where two leading Japanese economists, Saburo Okita and Kiyoshi Kojima, were central contributors. The establishment of the Japan Economic Research Centre

<sup>47</sup> Yamakage, "Will Japan Seek," p. 153.

<sup>48</sup> The MOFA was concerned about ASEAN's possible clash with the US bilateral security system in the region, while the MITI was worried about the possibility that ASEAN would turn itself into an economic block that could exclude Japan and the US. Also, they had a concern that the formation of ASEAN would have a negative effect on bilateral relations between Japan and the ASEAN countries. (Hook et al. *Japan's International Relations*, pp. 186-187)

<sup>49</sup> Yamakage, "Ajia Taiheiyō," p. 158.

(JERC) in the early 1960s provided an institutional vehicle for these studies.<sup>50</sup> Kojima proposed to create a Pacific Free Trade Area (PAFTA) in 1965, which would have comprised the five developed Pacific countries of the US, Canada, Australia, New Zealand and Japan. This was largely a response to the development of the European Economic Community (EEC) and it was designed to supplement and strengthen the international trading system.

The concept of Asia Pacific was, for the first time, espoused at the official level by the then Foreign Minister Takeo Miki in the Sato cabinet in May 1967. He recognised the need to address the economic development problems of the Asian developing nations, and considered that these problems were to be tackled through the concerted efforts of the Pacific developed countries.<sup>51</sup> Miki hoped that the creation of a free-trade area in the region would lead to increased trade among Asian developing countries, which in turn would help economic development in Asia.<sup>52</sup> Based on Miki's strong interest in the idea of Asia Pacific cooperation, the MOFA tried to pursue this policy, but, with little enthusiasm from other countries, government level interest in PAFTA became dormant, and instead the idea of Asia Pacific cooperation lived on mainly in academic circles until the end of the 1970s.<sup>53</sup>

The Pacific Trade and Development Conferences (PAFTAD) was started in 1968 under the auspices of JERC with the support of Miki and brought together economists from the five developed Pacific nations and Britain. The participants were top-ranked scholars, who often had important roles as advisors to their governments, and thus the

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<sup>50</sup> Hadi Soesastro, "Pacific Economic Cooperation: the History of an Idea," in Ross Garnaut and Peter Drysdale, eds., *Asia Pacific Regionalism: Reading International Economic Relations* (Sydney: Harper Educational, 1994), p. 79.

<sup>51</sup> *Ibid.*, p. 80, and Watanabe, *Aiia Taiheiyō*, p. 108.

<sup>52</sup> Takashi Terada, "The Origins of Japan's APEC Policy: Foreign Minister Takeo Miki's Asia Pacific Policy and Current Implications," *The Pacific Review* 11, 3 (1998), p. 342.

<sup>53</sup> Pekka Korhonen, *Japan and Asia Pacific Integration: Pacific Romances 1968-1996* (London: Routledge, 1998), p. 27.

conferences were never ordinary academic gatherings.<sup>54</sup> Likewise, the Pacific Basin Economic Council (PBEC) was established in the same year as a private organisation of Pacific business executives, who were interested in the idea of creating new business opportunities through regional cooperation. Its objectives were to promote the study of regional trade and investment and to advance greater cooperation between public and private interests.<sup>55</sup>

It must be noted that these private organisations became an important vehicle for the later development of the idea of Asia Pacific cooperation (or Pacific cooperation) in the way that they provoked serious discussions about the way towards, and significance of, regional cooperation, which hitherto lacked in the region.<sup>56</sup> Also, they helped to promote regional solidarity and reinforced shared norms, which were the intellectual background of cooperation movements in the area.<sup>57</sup> In this sense, it could be argued that, although Miki's policy to advance a formal regional cooperation framework was unsuccessful in the short term, in the longer perspective it laid the foundation of the future development of Asia Pacific regionalism. In fact, Terada shows that Miki was aware of the necessity of a long-term policy perspective for that idea, noting Miki's statement: "we should have a gradual approach to the Asia-Pacific policy by starting with programmes which can be implemented. This would help create a 'mood' for producing solidarity among nations in the end."<sup>58</sup>

It is important to bear in mind why Japanese policymaking agents, specifically Miki, came to favour the concept of Asia Pacific, and Asia Pacific cooperation. For one thing, as seen in the case of the ADB, Japan was not ready to take regional responsibility

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<sup>54</sup> Ibid., p.2.

<sup>55</sup> Soesastro, "Pacific Economic Cooperation," p.80.

<sup>56</sup> Tsutomu Kikuchi, *APEC: Ajia Taiheiyō Shin Chitsujō no Mosaku [APEC: the pursuit of a new Asia Pacific order]* (Tokyo: The Japan Institute of International Affairs, 1995), p.73.

<sup>57</sup> Richard Higgott, "Economic Cooperation: Theoretical Opportunities and Practical Constraints," *The Pacific Review* 6, 2 (1993), pp.112-113.

<sup>58</sup> Terada, "The Origins," p.357.

alone at that time, although Japan recognised the importance of the development and stability in its Asian neighbours to its national interests. As shown above, the Japanese government initially conceived of Asia Pacific cooperation as a form of collaboration among the Pacific developed countries to assist the developing countries in the region, rather than regional economic cooperation among developed and developing countries on equal footing. Japan could not afford to assist Asian developing countries alone and had to rely on other developed countries.<sup>59</sup>

In addition, given the rejection by the other Asian countries of Japan's initiatives in regional matters, Asia Pacific cooperation looked less controversial to Japanese officials, as it could avoid giving the impression that Japan was looking for prominence in the region.<sup>60</sup> In other words, they thought that the US's involvement in Asian frameworks could ease the concern of regional countries about the growing influence of Japan. This would enable Japan, it was thought, to advance regional policies more easily, although, as will be discussed later in this chapter, even the idea of Asia Pacific cooperation was not readily accepted by regional countries.

Furthermore, what must be stressed is that the idea of Asia Pacific cooperation has appealed to Japanese policymakers at a deeper level as well. As mentioned before, how to balance the relationship with the US and that with Asia has been a key issue for Japan's international relations throughout the postwar period. The concept of Asia Pacific looks quite attractive to Japan in this context in the sense that, while maintaining and improving its ties with Asian countries, it had a good chance of finding a way to accommodate the US. In other words, it could be argued that Japanese policymakers' interest in Asia Pacific cooperation has reflected the motivation to co-ordinate these two important relationships. Ohba argues that since Miki the concept of Asia Pacific has been established in Japan as a convenient phrase to combine these two

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<sup>59</sup> Ibid., p.344.

<sup>60</sup> Yamakage, "Will Japan Seek," pp.153.

potentially contradictory relationships.<sup>61</sup> This is why Japan has stuck to Asia Pacific as the means for regional cooperation rather than others, as discussed later.

To sum up, Japanese foreign policy during this early postwar period was characterised by the principles set out in the Yoshida Doctrine, namely the concentration on its own economic development, a low political profile, and the priority of and dependence on US relations. Japan's regional policy was pursued under this framework, and it is fair to argue that the Western, particularly the US, relations were the primary pillar of Japanese policy. Although this situation put its stamp on Japan's regional policy, which tended to be greatly influenced by its US relations, this policy was also motivated by Japan's own political and economic interests separate from US wishes. Japan's aid to Asia, which started as reparation payments, was extended partly in response to strong US requests, and partly in consideration of Japan's economic and political benefit. Japan became interested in a multilateral approach, illustrated by the ADB initiative, as well as Asia Pacific cooperation. It is true that Japan's multilateral initiatives eventually came within the scope of US interests, and Japan's attempt to take on an independent regional leadership role failed. However, overall, it is important to appreciate that Japan's multilateral policies reflected its own political and economic considerations, based on the international and regional conditions at that time.

### The 1970s

This decade saw an important, albeit limited, shift in the nature of Japanese foreign policy, which can be characterised as a loosening of the framework of the Yoshida Doctrine. Because of the significant transformation of the international political economy, which will be discussed below, Japan was no longer allowed to pursue the

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<sup>61</sup> Ohba, "Chiikishugi," p.267.

same line as in the previous decades. Japan gradually began to promote more independent policies rather than keeping to political and diplomatic minimalism and responding to US requests, even though those policies basically did not deviate from US policy. In other words, the substantial transformation of the international political economy began to force Japan to search for a new diplomatic identity and to expand the scope of its diplomacy within the framework of the US-centred relations. In this respect, Southeast Asia was Japan's renewed focus, and Japan began to show its willingness to take some political initiatives there, though only through economic means. These initiatives were not entirely successful at that time. Nevertheless, it is important to note that Japan began to consider utilising its economic resources for political purposes, and throughout the 1970s the relationship with East Asian countries, particularly Southeast Asian countries, became increasingly more important to Japanese foreign policy.

#### The impact of the transformation of the international political economy on Japanese policy

These changes in Japanese foreign policy can be, to a large extent, attributed to the fundamental changes in the structure of the international system, caused by significant events since the end of the 1960s. Such a sea change at the international level forced Japan to reconsider its previous strategy epitomised in the Yoshida Doctrine and to pursue more independent policies, which was particularly evident in its Southeast Asian relations.

One of the dramatic events of the early 1970s was the US recognition of China. President Nixon announced in July 1971 that he would visit China, and in the following year the Shanghai communiqué was agreed between the two countries. The impact of this event on international politics was immense. With respect to Japanese



policy, it led to the normalisation of diplomatic relations between China and Japan in 1972, and the conclusion of the Japan and China Treaty of Peace and Friendship in 1978. Since then, economic as well as political relations between the two countries strengthened markedly. More generally, this gesture on the part of Nixon changed significantly the international structure. It undermined the structure of bipolarity, as it was finally revealed that the Communist bloc was no longer unified.

These altered relationships between the US and China as well as between Japan and China, coupled with the advent of détente between the US and the Soviet Union, and the US withdrawal from the Vietnam War, gave the US sufficient reason for the gradual retreat of its forces from East Asia, which left, to some extent, a power vacuum there. This made Japanese policymakers increasingly concerned about stability in the region. In particular, the 1969 Nixon Doctrine, which stated that the US would not intervene in internal insurgencies in Asia, was seen as a clear call on Japan to contribute to the security and stability of East Asia.<sup>62</sup> It became more or less inevitable for Japan to make up for the declining US presence. Under the circumstances, Japanese policymakers began to recognise the need for the increased political use of Japanese economic resources so as to contribute to the maintenance of stability in the region. At the same time, the Southeast Asian countries, which were probably more concerned about the security situation in the region than Japan, began to view Japan as a potentially greater source of political support.<sup>63</sup>

In addition to these geopolitical shifts, there were other factors that influenced the change in Japanese foreign policy. As argued before, the US began to demand that Japan made a larger contribution particularly to East Asian issues in the 1960s, and such pressures were further strengthened in the 1970s, when Japan's economic rise and

<sup>62</sup> Michael J. Green, *Arming Japan: Defence Production, Alliance Politics, and the Postwar Search for Autonomy* (New York: Columbia University Press, 1995), p.54.

<sup>63</sup> Charles E. Morrison, "Japan and the ASEAN Countries: the Evolution of Japan's Regional Role," in Inoguchi and Okimoto, eds., *The Political Economy of Japan*, p.419.

the US's relative decline (partly due to the cost of the Vietnam War) became evident. Another Nixon shock in 1971, which was the end of gold standard and effectively meant the breakdown of the Bretton Woods system, revealed that the US was no longer an absolute hegemon. In particular, Japan's massive surplus of trade and current balances not only made the US frustrated and led to intensified trade friction between the two countries, but also attracted the criticism of many western developed nations, who accused Japan of pursuing neo-mercantilistic policies. Japan's more positive policy and the increased use of its economic resources for regional matters can be regarded, in a sense, as a way to placate the US and other Western countries by showing its willingness to shoulder the costs of maintaining the international order.

Furthermore, it is important to note that the Japanese economy began to be more closely connected with the East Asian economy, which not only greatly increased the economic importance of the region in Japanese strategies, but also made Japanese policymakers more concerned with the region's political stability, which by then could affect Japanese businesses directly. Japan had gradually re-established its economic ties to the region during the 1950s and 1960s, but the regional interdependence was further increased and deepened in the 1970s. The demise of the Bretton Woods system was a watershed in this process. The resulting appreciation of the yen<sup>64</sup> pressured Japanese firms to go abroad because of the weakening competitiveness of their exports. At the same time, the Japanese government lifted its controls on foreign direct investment (FDI) in the same year, which resulted in a surge of Japanese investment in the region (Table 2-1). This expansion of investment continued steadily throughout the 1970s, with manufacturing companies moving into the four Newly Industrialising Countries (NICs) and raw material extraction companies moving primarily to

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<sup>64</sup> Yen appreciated against the dollar, from 360 yen per dollar to less than 300 yen after it was floated in 1973.

Indonesia.<sup>65</sup> The increase of Japan's FDI, which involved the rise of trade as well (Table 2-2, 2-3), ushered in greater regional economic integration, which was furthered in the 1980s, as discussed in more detail in the next section, although at this time it was still based on Japan-centred bilateral linkages rather than regional multilateral integration, as Pempel points out.<sup>66</sup>

Based on these changes in the international structure, Japan needed to modify its previous stance of minimalist diplomacy. Accordingly, while Japan consistently and dramatically increased the size of ODA throughout the 1970s (Table 2-4), and eventually replaced the US as the largest donor in the region in the late 1970s, it began to use its economic resources for diplomatic purposes, particularly in Southeast Asia, as discussed below.<sup>67</sup>

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<sup>65</sup> Richard Stubbs, "The Political Economy of the Asia-Pacific Region," in Richard Stubbs and Geoffrey R. D. Underhill, eds., *Political Economy and the Changing Global Order* (London: Macmillan, 1994), p.371.

<sup>66</sup> Pempel, "Transpacific Torii," p.51.

<sup>67</sup> The diplomatic use of its economic resources was not limited to East Asian policy. The substantial increase of aid to the Middle East is a case in point. The Arab oil embargo in 1973 had a huge impact on the thinking of Japanese policymakers, as Japan depended on the Middle East for a large part of its oil imports, which were the lubricant of the postwar Japanese development. That incident reminded them of the vulnerability of the Japanese economy in terms of natural resources, and forced them to reconsider the postwar strategy of Japanese foreign policy. In fact, Japan immediately acted to establish closer ties with oil-producing countries in the Middle East by using economic assistance as a means. Consequently, Japan's aid to this region increased significantly (the share of Middle Eastern countries in Japanese ODA increased from 3.6 percent in 1970 to 10.4 percent in 1980), and since then Japan has given special attention to this region specifically with respect to aid. It is noteworthy that this pro-Arab attitude of Japan was at odds with the US's pro-Israel stance.

Table 2-1: Japanese Outward FDI by regions (1965-1995)

(Million US \$)

To:	1965	1970	1975	1980	1985	1986	1987	1988	1990	1995
World	159	904	3280	4693	12217	22320	33364	47022	56911	50694
US	33	94	846	1484	5395	10165	14704	21701	26128	22193
	20.8%	10.4%	25.8%	31.6%	44.2%	45.5%	44.1%	46.2%	45.9%	43.8%
East Asia	32	165	1077	1176	1414	2310	4386	5526	8948	11763
	20.1%	18.3%	32.8%	25.1%	11.6%	10.3%	13.1%	11.8%	12.2%	23.2%
China	0	0	0	12	100	226	1226	296	349	4473
	0.0%	0.0%	0.0%	0.3%	0.8%	1.0%	3.7%	0.6%	0.6%	8.8%
NICs	5	60	277	378	718	1531	2580	3284	3355	3179
	3.14%	6.64%	8.45%	8.05%	5.88%	6.86%	7.73%	6.94%	5.90%	6.27%
ASEAN 4	27	105	800	786	596	553	1030	1966	3242	4111
	17.0%	11.6%	24.4%	16.7%	4.9%	2.5%	3.1%	4.2%	5.7%	8.1%

(Sources: Compiled from Hook et al. *Japan's International relations*, pp.450-457.)

East Asia consists of China, NICs and ASEAN 4.

NICs consists of South Korea, Taiwan, Hong Kong and Singapore.

ASEAN 4 consists of Thailand, Malaysia, the Philippines and Indonesia.

Table 2-2: Japanese Exports by regions (1965-1995)

(Million US \$)

To:	1965	1970	1975	1980	1985	1990	1995
World	8,452	19,318	55,753	129,807	175,638	286,948	442,937
US	2,479	5,940	11,149	31,367	65,278	90,322	120,859
	29.3%	30.7%	20.0%	24.2%	37.2%	31.5%	27.3%
East Asia	1,794	4,595	13,632	33,383	42,275	87,978	186,546
	21.2%	23.8%	24.5%	25.7%	24.1%	30.7%	42.1%
China	245	569	2,259	5,078	12,477	6,130	21,931
	2.9%	2.9%	4.1%	3.9%	7.1%	2.1%	5.0%
NICs	810	2,641	6,972	19,186	22,491	59,667	111,036
	9.6%	13.7%	12.5%	14.8%	12.8%	20.8%	25.1%
ASEAN 4	739	1,385	4,401	9,119	7,307	22,181	53,579
	8.7%	7.2%	7.9%	7.0%	4.2%	7.7%	12.1%

(Sources: Compiled Hook et al. *Japan's International relations*, pp.442-449.)

East Asia consists of China, NICs and ASEAN 4.

NICs consists of South Korea, Taiwan, Hong Kong and Singapore.

ASEAN 4 consists of Thailand, Malaysia, the Philippines and Indonesia.

Table 2-3: Japanese Imports by regions (1965-1995)

(Million US \$)							
From:	1965	1970	1975	1980	1985	1990	1995
World	8,169	18,881	57,863	140,528	129,539	234,799	336,094
US	2,366	5,560	11,608	24,408	25,793	52,369	75,408
	29.0%	29.4%	20.1%	17.4%	19.9%	22.3%	22.4%
East Asia	1,288	2,692	10,261	31,396	33,041	62,428	115,510
	15.8%	14.3%	17.7%	22.3%	25.5%	26.6%	34.4%
China	225	254	1,531	4,323	6,483	12,054	35,922
	2.8%	1.3%	2.6%	3.1%	5.0%	5.1%	10.7%
NICs	266	659	2,764	7,365	9,839	25,947	41,218
	3.3%	3.5%	4.8%	5.2%	7.6%	11.1%	12.3%
ASEAN 4	797	1,779	5,966	19,708	16,719	24,427	38,379
	9.8%	9.4%	10.3%	14.0%	12.9%	10.4%	11.4%

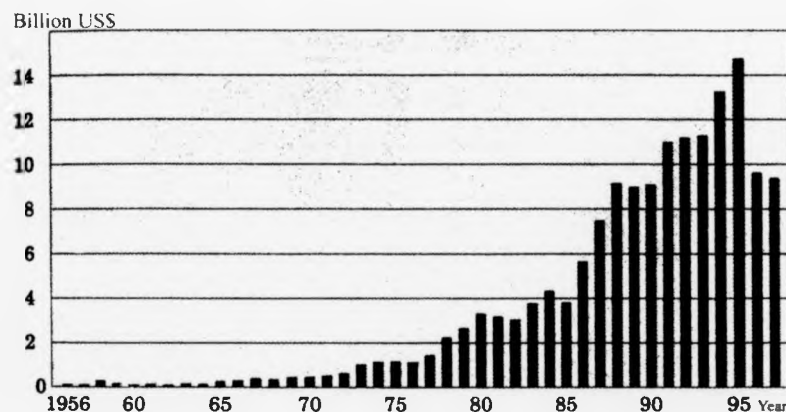
(Sources: Compiled Hook et al. *Japan's International relations*, pp.442-449.)

East Asia consists of China, NICs and ASEAN 4.

NICs consists of South Korea, Taiwan, Hong Kong and Singapore.

ASEAN 4 consists of Thailand, Malaysia, the Philippines and Indonesia.

Table 2-4: The total amounts of Japanese ODA (1956-1997)



(Sources: Makoto Iokibe, ed., *Sengo Nihon Gaikoshi*, p.213.)

#### Institutionalising ASEAN relations

Although these changes in the international structure laid the foundation for Japan's more independent foreign policy, particularly in Southeast Asia, they were also a

reflection of the regional situation at that time. Throughout the 1970s, high political tension grew in many parts of Southeast Asia, as illustrated by the coup in Thailand in 1971 and the declaration of martial law in the Philippines in 1972. Under such precarious regional conditions, Japan's economic dominance in the region led to incidents in which Prime Minister Kakuei Tanaka was faced with riots in Jakarta and Bangkok in January 1974 during his official trip to Southeast Asia. Although the political tension in the region played a major role in the riots,<sup>68</sup> these incidents shocked Japanese policymakers, and made them realise not only the political instability in the region but also Japan's alienation from the region and the necessity to make more efforts to consolidate ties with the region. The incidents also challenged one of Japan's postwar beliefs that the separation of economics from politics was a successful formula for avoiding political conflicts with its neighbours,<sup>69</sup> forcing Japanese policymakers, particularly the MOFA, to take a more positive approach towards the region.

Furthermore, it is noteworthy that Japanese policymaking agents were taking a growing interest in East Asia. In the MOFA, the so-called 'Asianists' were gradually gaining influence, and they found opportunities for a more active diplomacy in Southeast Asia, at a time when more politicians were also becoming interested in this region.<sup>70</sup> This was probably a reflection of the importance of East Asia, particularly due to Japan's closer economic ties there, together with the impact on the Japanese policymakers of the incidents that took place during Tanaka's Southeast Asian visit.

Against this international and regional background, Japan began to establish closer ties with ASEAN. Japanese policymakers came to recognise that the past policy of bilateral economic assistance needed to be reconsidered, but Japan did not have any

<sup>68</sup> Morrison, "Japan and the ASEAN countries," p.419.

<sup>69</sup> Ibid., p.420.

<sup>70</sup> Sudo, "Nihongaiko," p.153.

particular alternative means. Regional organisations that Japan had tried to promote, namely MEDSEA and ASPAC, had not functioned as expected and had disappeared in the mid-1970s. Although, as mentioned earlier, Japanese officials initially did not have a positive stance on ASEAN, under these changed circumstances they began to regard ASEAN as the new cornerstone of Japan's regional policy.<sup>71</sup>

The MOFA played a central role in institutionalising ASEAN relations. Prime Minister Takeo Fukuda, during his visit to Southeast Asia in 1977, attended the Second ASEAN Summit Meeting by ASEAN's invitation. He made an important speech about Japan's basic philosophy on Southeast Asian policy, known as the Fukuda Doctrine, which became a trigger for the subsequent development of Japan-ASEAN relations. It comprised the following three points.

- (1) Japan will not become a military power, and will contribute to the peace and prosperity of the world.
- (2) Japan will seek to develop equal partnerships with Southeast Asian countries in the political, economic, social, and cultural spheres based on genuine understanding.
- (3) Japan will support the increase in the solidarity and strength of the ASEAN countries; it will contribute to the strengthening of mutual understanding between the ASEAN members and the Indochina nations, and it will help establish peace and prosperity throughout Southeast Asia.<sup>72</sup>

The Fukuda Doctrine expressed the willingness of the Japanese policymaking agents to build up a new relationship with Southeast Asia in collaboration with ASEAN as an equal partner. Most Japanese prime ministers have made an official trip to ASEAN countries since, and each time they have pledged some new commitments for

<sup>71</sup> Takeda, "Tonan ajia gaiko," p.65.

<sup>72</sup> Ibid., p.66. (author's translation)

ASEAN's development in accordance with ASEAN's expectations.<sup>73</sup> Rix argues that there is no doubt that ASEAN has enjoyed a special status in Japanese foreign policy since the Fukuda Doctrine.<sup>74</sup> By the time of the Fukuda Doctrine, ASEAN countries had come to occupy predominant positions in Japan's ODA list, and bilateral relationships between Japan and each ASEAN country remained important. As Rix notes, "there are undoubtedly 'ASEAN' features that are increasingly setting the broad parameters for bilateral aid ties with Japan, and into which some aspects of bilateral programmes are fitted."<sup>75</sup>

More importantly, the Fukuda Doctrine displayed Japan's intent to play a larger role in the region by stepping into the political area. Morrison argues that it is "regarded as a major turning point in that it provided what Japan regarded as a statement of its political interests in the Southeast Asian region."<sup>76</sup> Specifically Japan volunteered to be a mediator between the ASEAN and other Indochina countries, for the sake of easing tensions in Southeast Asia. Japan tried to advance this agenda not through military but economic means, namely the provision of ODA to the Indochina countries. For instance, the MOFA requested Vietnam to use Japanese ODA for importing ASEAN products, which MOFA officials expected would foster a new relationship between ASEAN and the Indochina countries.<sup>77</sup> This policy to bridge between ASEAN and the Indochina countries ended in failure at that time, and it was interrupted until Japan began to be involved in Cambodian peace directly in the late 1980s. Japan had to sever aid to Vietnam in 1979 due to Vietnam's invasion of Cambodia in December 1978. However, in spite of this temporary reversal, it is noteworthy that Japan began to show its willingness to utilise economic resources for assuming a political role in the region, and indeed Japan became positively involved in the Cambodian issue later, as

<sup>73</sup> Sudo, *Tonankai*, pp.205-207.

<sup>74</sup> Rix, *Japan's Foreign Aid Challenge*, p.148.

<sup>75</sup> *Ibid.*, p.148.

<sup>76</sup> Morrison, "Japan and the ASEAN countries," p.422.

<sup>77</sup> Sudo, "Nihongaiko," p.154



discussed in the next section.

This new stance of Japan was not contradictory to US interests. The US was expecting Japan's larger contribution in Southeast Asia, as argued above, and was positive about its attempt to bridge the gap between ASEAN and Indochina until the Soviet invasion of Afghanistan in December 1979.<sup>78</sup> Watanabe notes that the MOFA planned very carefully the Fukuda Doctrine by creating a domestic and international consensus for it, and its officials had considered that it would not provoke serious external opposition.<sup>79</sup>

Since the announcement of the Fukuda Doctrine, the relationship between Japan and ASEAN has become institutionalised. The first Japan-ASEAN Foreign Minister's Meeting was organised in 1978, and they still meet regularly. This first meeting developed into the ASEAN Post Ministerial Conference (PMC) in the following year, which originally included the US, New Zealand, Australia and the European Community (EC) but expanded to others later. Furthermore, an economic ministers meeting between Japan and ASEAN was proposed by the Japanese Foreign Minister; they met for the first time in 1979, and since 1992 they have met on a regular basis.

#### Since the 1980s

The changes in Japanese foreign policy discussed in the previous section have continued since the 1980s. Japan's minimalist stance on international affairs based on the Yoshida Doctrine has been further diluted. While its foreign economic policy, together with Japanese private capital, have had a significant impact on the regional economic order as well as the economy of individual countries, Japan has become more interested in taking political initiative in regional matters. While policies based on the Fukuda Doctrine in the previous decade represented basically the use of economic resources for political purposes, and in fact economic resources will remain

<sup>78</sup> Takeda "Tonan ajia gaiko," p.67.

<sup>79</sup> Watanabe, *Ajia Taiheigo*, pp.113-114.

Japan's main foreign policy tool, Japan has become more active diplomatically and has participated in creating new regional frameworks. Furthermore, even security issues have ceased to be a political taboo among Japanese policymaking agents, particularly since the Gulf War, which, as argued below, greatly influenced the thinking of Japanese policymakers and the public, although these issues are still dealt with very cautiously. Few policymakers would dispute that US relations are still most important. In fact Japan is always careful to take into account the US stance, and never wishes to defy US policies. However, it should be noted that Japan's interest in conducting more independent policies that are not merely the extension of, or a derivation of, US policies has begun to be observed. In addition, the position that East Asian countries, not only Southeast Asian countries, but also the NICs and China, occupy in Japanese foreign policy has undoubtedly risen considerably.

The continued changes in the external environment since the 1970s, such as the rise of Japan's economic power and the deepening economic interdependence in the region, have laid the foundation for these further shifts in Japanese foreign policy during this period. However, what has to be particularly noticed is the sea change in the international system triggered by the end of the Cold War. As Funabashi argues, "[t]he 1990s and the end of the Cold War have brought Japan's Asia policy to a new stage. Increasingly, politics and a greater spirit of interdependence have been infused in Japan's approach to the region."<sup>80</sup> Accordingly, this section will first look at the impact of the end of the Cold War on Japanese foreign policy, followed by the examination of Japanese policies in three subject areas: (1) Japan's economic relations with the region, (2) its policies towards regional cooperation and (3) its political and security initiatives.

#### The end of the Cold War and its impact on Japanese foreign policy

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<sup>80</sup> Funabashi, *Asia Pacific Fusion*, p.230.

Despite several years of the renewed heightening of Cold War tensions in the early 1980s, by the end of the decade it became apparent that the Cold War was coming to an end. Although some may argue that the impact of the end of the Cold War in East Asia has not been as great as in Europe, it has greatly changed Japan's diplomatic environment, and has significantly influenced Japanese foreign policy.

One of the significant impacts that the end of the Cold War has had on Japanese foreign policy is that it has made Japan's status in world politics more uncertain. While the Cold War order strictly constrained the scope of its foreign policy, Japan in turn had a secure position in such a framework, which it sought to safeguard by indirectly contributing to the Western camp and supporting US policy through mainly economic means. The end of the Cold War has completely altered these coordinates of Japanese postwar foreign policy, and has forced Japanese policymakers to think anew what sort of role the country should play in order to maintain and enhance its political status. The following remark of Former Foreign Minister Yohei Kono indicates the shift in Japanese foreign policy: since the end of the Cold War the concept of Japan as a member of the West, which was the basis for deciding Japan's political and security policy, has had no significance, and this has brought a significant change to Japanese foreign policy.<sup>81</sup>

Furthermore, the changing world order in the post Cold War era does no longer guarantee the conditions in which Japan has pursued its national interests, namely its stability and prosperity. As discussed before, Japan was, to a great extent, a beneficiary of the existing international order during the Cold War, and was able to achieve these objectives, but such a favourable environment is not guaranteed any more. As a consequence, the Japanese policymakers have increasingly recognised that Japan has to be more involved politically in the architecture of a new international order to avoid

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<sup>81</sup> Yohei Kono, "Nihon gaiko no shinro [the path of Japanese diplomacy]," *Gaiko Foramu* (1995, 1), p.13.

being left out and to secure a voice to defend its national interests. Takakazu Kuriyama, former Vice Minister for foreign affairs, writes:

For small or middle countries, the fundamental diplomatic task is to make good use of an existing international order for securing national interests. In this sense, Japan's postwar diplomacy was successful. However, now that the international order and Japan's position in it has changed greatly, Japan cannot defend its national interests through the diplomacy of small or middle countries. Japan has to positively participate in re-establishing the international order that has been changing fundamentally.<sup>82</sup>

This orientation of the Japanese policymakers is particularly evident in the security area. During the Cold War, the US was strongly committed to the security of its allies within its broad security framework based on the containment of the Soviet Union. The end of the Cold War has inevitably forced it to change its long-term policy stance. The reduction of the US defence budget and the gradual withdrawal of the US forces from East Asia from a long-term perspective is unavoidable to some extent and so is its limited political presence there, although for the time being the security relationship between Japan and the US has been strengthened particularly since the issuance of the 'Nye Report' in February 1995,<sup>83</sup> and the US has shown its determination to maintain around 100,000 troops in East Asia for at least the next twenty years. In fact, the US has declared that it has ceased to be the world policeman, and it has requested greater burden sharing from its allies.<sup>84</sup> It looks like the rather distant US stance towards the East Asian financial crisis confirmed this tendency, as will be discussed in Chapter 4. Japanese and East Asian officials have recognised that East Asia has to prepare for a

<sup>82</sup> Takakazu Kuriyama, "Taikenteki nihon gaikoron," p. 113. (Author's translation)

<sup>83</sup> The report, issued by the Department of Defense, confirmed the continued US commitment to the US-Japan Security Treaty as the basis of the US security policy.

<sup>84</sup> Shuichiro Iwata, "Beikoku no gunji senryaku to nichibei anpo taisai [the US's military strategy and the US-Japan security]," *Kokusai Seiji* 115 (1997), pp. 110-111.

gradual US withdrawal from the region. Under the circumstances, Japan's political role in the region has definitely become more important than before. It is not that they wish a diminution of the US presence in East Asia, and in fact some regional frameworks, such as APEC and the ASEAN Regional Forum (ARF), are in a sense intended to keep the US involved. However, in the long-term the US cannot be expected to maintain the same policy towards East Asia as it did during the Cold War, which Japanese and East Asian officials have to accept.

The Gulf War actually revealed to Japanese policymakers that the old formula did not work well any more, and had a considerable impact on the Japanese security thinking. Japan's huge economic contribution did not satisfy the US policy-making circles and the US public, and generated international criticism. Iokibe argues that what the Gulf War asked the Japanese was to consider whether their fundamental belief concerning the country's security was wrong, namely the belief that all Japan has to do to be accepted by the international society is not to instigate or to be involved in a war in any way.<sup>85</sup>

Thus, the end of the Cold War and subsequent changes in the international environment, the Gulf War in particular, have significantly influenced Japanese domestic society, and have provoked huge debates in Japan. Although a new consensus on this issue has not emerged yet, many people seem to have come to be aware that some change is necessary. It is noteworthy that there have been increasingly positive views on a more extensive, albeit still limited, role of the SDF. When the government submitted a United Nation Peace Force Co-operation Bill to the Diet in 1990, when a war in the Gulf seemed likely, public opinion was very negative about the overseas dispatch of military personnel and the Bill.<sup>86</sup> However, a decade later, a poll showed

<sup>85</sup> Makoto Iokibe, "Reisengo no nihon gaiko [Japanese diplomacy after the Cold War]," in Iokibe, ed., *Sengo Nihon*, pp.228-229.

<sup>86</sup> J. A. A. Stockwin, *Governing Japan: Divided Politics in a Major Economy* (Oxford:

that 70 percent of people backed the SDF's logistical and non-combat involvement in the operations of the US and other states that followed the attacks in New York and Washington on September 11, 2001.<sup>87</sup> This has been a highly controversial issue as it could lead to a shift in Japan's fundamental security policy, but an increasing number of voices not only among policymakers but also the Japanese public have asked that Japan should cease to be a junior partner to the US. In fact, there have been discussions about the revision of the constitution, specifically the revision of Article 9,<sup>88</sup> which provides the basis of state pacifism and on which much of the discussions has revolved, and still revolves.<sup>89</sup> Debates are still going on,<sup>90</sup> but one thing to be noted is that the number of people who accept the revision of the constitution has, without doubt, increased in the last decade, although most advocates of the revision do not wish to get rid of Article 9, or to push for independent remilitarisation.<sup>91</sup>

In short, the end of the Cold War has created various conditions under which Japan has to be more positively involved in international affairs politically, and even in the security area. It is believed, increasingly, that the past minimalist policy is no longer beneficial for Japan.

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Blackwell, 1999), pp.73-74.

<sup>87</sup> Nihon Keizai Shinbun, September 27, 2001.

<sup>88</sup> Article 9 declares: (1) Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international dispute; (2) In order to accomplish the aim of the preceding paragraph, land, sea, and air forces, as well as other war potential, will never be maintained. The right of belligerency of the state will not be recognised. (Glenn D. Hook and Gavan McCormack, Japan's Contested Constitution: Documents and Analysis (London: Routledge, 2001), p.191)

<sup>89</sup> *Ibid.*, p.4.

<sup>90</sup> There are a number of arguments involved. For instance, the Yomiuri Shinbun, the conservative right, most widely read newspaper in Japan, holds that several changes of the constitution are necessary, while the Asahi Shinbun, the liberal left, second most widely read daily, opposes the idea. Also, Ichiro Ozawa, a conservative politician, favours revision and advocates the idea of Japan as a 'normal country'. On the other hand, Yoichi Funabashi of the Asahi Shinbun proposes a vision of Japan as a 'global civilian power'. (See, for the detail of the debates on the Constitution, Hook and McCormack, Japan's Contested Constitution, and Richard B. Finn, "Japan's Search for a Global Role: Politics and Security," in Warren S. Hunsberger, ed., Japan's Quest: the Search for International Role, Recognition, and Respect (Armonk, New York: M. E. Sharpe, 1997), pp.115-129.)

<sup>91</sup> Hook and McCormack, Japan's Contested Constitution, pp.31-34, Green, Japan's Reluctant Realism, pp.25-26, and Stockwin, Governing Japan, pp.168-172.

At the same time, the end of the Cold War has influenced Japan's East Asian relations in the sense that the East Asian countries have come to hold an ever more important position in Japanese foreign policy. For one thing, East Asia is naturally the place where Japan's political initiatives are more likely to be directed for historical, geographical and economic reasons. Japan has to consolidate the basis that allows its more positive roles there. Accordingly, the region has attracted more attention from Japanese policymaking agents.

Furthermore, Japan's interest in East Asia is more or less the reverse side of its increasingly difficult relations with the US. The end of the Cold War has affected Japan's relations with the US in the sense that the conflict of economic interests between the two countries, which had been mitigated by the presence of a common enemy during the Cold War, became more exposed and straightforward. This was particularly seen in the high tension in the bilateral trade negotiations between the two countries from the late 1980s to the early 1990s. Takayuki Kimura, a high-ranking MOFA official, argues that during the Cold War, even though economic negotiations had their moments of heated discussion, they could reach a last-minute compromise because the US "considered the overall relationship with Japan more important in the face of communist adversaries than minor economic gains in negotiations."<sup>92</sup> However, the end of the Cold War made such considerations unnecessary for the US, and made it pursue direct economic benefits particularly during the term of the Clinton administration.<sup>93</sup> These aggressive US attitudes made not only Japanese policymakers, but also a large part of the Japanese public, the media and academics, feel sick of the overall relationship with the US, although few dispute the significance of US relations.

While these changes attributed to the end of the Cold War have provided the

<sup>92</sup> Takayuki Kimura, "Japan-US Relations in the Asian-Pacific Region." In Grant, ed., *The Process of Japanese Foreign Policy*, pp.57-58.

<sup>93</sup> The current Bush administration, which puts more importance on the security relationship with Japan, has not taken as hard an approach as the Clinton administration.

background for Japan's greater political initiatives in the region, Japan's policy in the economic sphere has also continued to affect the region. In the following, Japan's economic role in this period will be discussed first before moving on to examine Japan's initiatives in the political and security areas.

#### Japan's economic relations with the region

Japan's economic power has greatly influenced the fate of the regional economy throughout the postwar period, and it has been particularly significant since the mid-1980s, when a combination of Japanese private and public capital began to flow into East Asian countries. This has resulted in a much greater integration of the regional economy and a new regional economic order. While this development has contributed to the rising importance of East Asian countries in Japanese foreign policymaking, it has created in turn a more favourable regional environment that allows a greater role for Japan. This section will discuss this development and show how Japan has quietly and successfully pursued regional policies by deploying its economic resources.

It must be noted that, while the economic policies of the Japanese government have played a significant role, as discussed below, Japanese private capital has been an essential driving force in integrating the East Asian economy. Japanese FDI in the region had grown continuously since the 1970s, as argued before, but this growth was accelerated dramatically in the mid-1980s, particularly after the Plaza Accord in 1985. The value of the Yen almost doubled between 1985 and 1988, which forced Japanese firms to go abroad. Japanese FDI in East Asia tripled from 1985 to 1987, and increased five times by 1990 (Table 2-1). Although the US is still by far the largest investment destination, this rise of Japanese FDI to East Asia has had a great impact on the region. In fact, in many East Asian countries Japan has become the largest investor nation, replacing the US, and the share of Japanese FDI in the total investment in East Asia



was 27.5 percent (1990) and 16.5 percent (1995), while the share of US FDI was 18.8 percent (1990) and 12.2 percent (1995).<sup>94</sup> The surge in Japanese FDI in absolute terms was accompanied by the rapid increase of Japanese trade with the region. Both Japanese exports to and imports from East Asia almost doubled from 1985 to 1990 (Table 2-2, 2-3). Also, Pempel notes that, while about one-half of US investment in East Asia is concerned with natural resource extraction, Japan's investments in manufacturing have become more conspicuous, which has made the East Asian economy highly dependent on Japan.<sup>95</sup>

Japanese FDI has not only strengthened the economic relationship between Japan and other East Asian countries, but has also altered the region's trade and investment pattern as a whole. The pattern of East Asian development has been discussed as the 'flying geese model of development'. According to this explanation, Japanese FDI first went to NICs, contributing to their development, and then began to invest massively in ASEAN and China. The latter were also the destination of significant investment from the multinational companies of NICs. Also, according to the model, these countries were then able to move up the technological ladder through this investment process by following the example of countries that had already been successful. For instance, as Japan moved out of textiles, Korea and others took over. What this discussion suggests is that such an investment process has encouraged further regional development, being accompanied by a great expansion of multilateral intra-regional trade, which has further integrated the East Asian economies in a web of relations not only bilaterally with Japan but also with each other.<sup>96</sup> This process has been deepened by the

<sup>94</sup> JETRO White Paper, 1997.

<sup>95</sup> Pempel, "Transpacific Torii," p.62.

<sup>96</sup> The flying geese model has not been unchallenged. For instance, Bernard and Ravenhill criticise the model, arguing that the pattern of industrialisation in East Asian countries has been dramatically different from that of Japan, as they remain highly dependent on Japanese capital goods and technologies. The model also fails to capture the complexity of regionalised production networks, and focuses on the flow of specific products in isolation from others. (Mitchell Bernard and John Ravenhill, "Beyond Product Cycles and Flying Geese: Regionalization, Hierarchy, and the Industrialization of East Asia," *World Politics* 47 (1995),

emergence of the Chinese FDI network, where overseas Chinese investors in Singapore, Hong Kong and Taiwan move into China.<sup>97</sup> In fact, the amount of exports within East Asia (including Japan) increased from US\$123.2 billion in 1985 to US\$628.6 billion in 1995.<sup>98</sup>

While the economic integration between Japan and other East Asian countries, or among regional countries, has been basically market-driven, the role of Japanese government policies in that process cannot be underestimated. In particular, the extension of substantial amounts of Japanese aid to the region has made Japanese investment in the ASEAN and China easier, underpinning the regional investment linkage.<sup>99</sup>

Japan has steadily increased the volume of aid, having become the largest aid donor in the world in 1989 for the first time,<sup>100</sup> and East Asian countries have always been in a special position as recipients of Japanese aid. Although the percentage of total Japanese aid to East Asia has declined due to the diversification of Japanese aid, the sum that East Asia received has substantially increased in absolute terms (Table 2-5). In addition, East Asian countries have always dominated the top-ten list of aid recipients (Table 2-6). A particular notice is due to China's emergence as a major recipient after the two governments signed the 1978 Peace and Friendship Treaty. At the end of the Cold War Vietnam has joined China as a main target of Japan's ODA in accordance with Japanese policy of promoting the development of both socialist and capitalist economies of the region.<sup>101</sup>

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pp.171-209.

<sup>97</sup> Pempel, "Transpacific Torii," p.64.

<sup>98</sup> JETRO White paper, 1997

<sup>99</sup> Stubbs, "The Political Economy," pp.372-373.

<sup>100</sup> Japan's ODA Annual Report 1999, p.215.

<sup>101</sup> Glenn Hook, "Japan and the Construction of Asia Pacific," in Andrew Gamble and Anthony Payne, eds., *Regionalism and World Order* (London: Macmillan, 1996), p.176.

Table 2-5: Japan's bilateral ODA by regions (1980-1998)

(Million US \$)

	1980		1990		1995		1998	
Asia	1383	70.5%	4117	59.3%	5745	54.4%	5372	62.4%
Northeast Asia	82	4.2%	835	12.0%	1606	15.2%	1211	14.1%
Southeast Asia	861	43.9%	2379	34.3%	2592	24.6%	2438	28.3%
Middle East	204	10.4%	705	10.2%	721	6.8%	392	4.6%
Africa	223	11.4%	792	11.4%	1333	12.6%	950	11.0%
Others	151	7.7%	1327	19.1%	2758	26.1%	1892	22.0%
Total	1961		6941		10557		8606	

(Sources: Japan's ODA Annual Report 1999

www.mofa.go.jp/policy/oda/summary/1999/d\_g2\_01.html#c\_2\_2)

Note: Northeast Asia includes China, Hong Kong, South Korea and Mongolia.  
Southeast Asia means ASEAN countries.

Table 2-6: Japan's bilateral ODA by Recipients of Largest Amounts (1970-1998)

(Million US \$)

Rank	1970		1980		1988		1998	
	Country	Amount	Country	Amount	Country	Amount	Country	Amount
1	Indonesia	125.84	Indonesia	350.30	Indonesia	984.91	China	1,158.16
2	South Korea	86.76	Bangladesh	215.14	China	673.70	Indonesia	828.47
3	Pakistan	39.55	Thailand	189.55	Philippines	534.72	Thailand	558.42
4	India	32.73	Burma	152.46	Thailand	360.62	India	504.95
5	Philippines	19.23	Egypt	122.97	Bangladesh	341.96	Pakistan	491.54
6	Thailand	16.91	Pakistan	112.42	Pakistan	302.17	Vietnam	388.61
7	Iran	11.96	Philippines	94.40	Myanmar	259.55	Philippines	297.55
8	Burma	11.94	South Korea	76.30	Sri Lanka	199.83	Sri Lanka	197.85
9	China	9.53	Malaysia	65.63	India	179.46	Bangladesh	189.05
10	Singapore	5.75	Sri Lanka	44.78	Egypt	172.9	Malaysia	179.10

(Sources: Orr, *The Emergence of Japan's Foreign Aid Power*, pp.70-71,and *Japan's ODA Annual Report* 1999, www.mofa.go.jp/policy/oda/summary/1999/d\_g2\_02.html#c\_2\_3)

For many East Asian countries, Japanese aid has been of considerable importance to their economies, although it may be debatable to what extent it has actually affected their economic growth. As mentioned in the preceding section, Japan has been the largest donor in the region since 1977, and in most of the ODA recipient countries in East Asian, Japan is the largest donor.<sup>102</sup> Furthermore, Japan is the second largest contributor to most multilateral banks, and the largest to the ADB, together with the US, which also affects the economic fate of many East Asian developing countries.

<sup>102</sup> Japan was the largest donor in 1997 in the following East Asian countries: Indonesia, Vietnam, Cambodia, Thailand, China, the Philippines, Myanmar, and Laos. (*Japan's ODA Annual Report* 1999, p.160)

Rix stresses the importance of Japanese aid, arguing the aid has "been able to affect the economic future of most of the countries of Asia, and come to be the greatest single influence in the economic decision-making of many governments within the region," and aid "speaks loudly of Japan's importance to the region."<sup>103</sup> Japan's economic assistance has become more important particularly after the end of the Cold War, as the US, under Congressional pressure, has become a less generous donor.

Furthermore, it could be argued that what the Japanese government has done is more than merely giving aid. It has adopted various measures to encourage private capital flow to the region. For instance, it gave Japanese firms financial incentives, such as low-interest loans for foreign investment, foreign investment insurance, as well as information.<sup>104</sup> Also, there is evidence that the government was, through its associated agencies, engaged in various activities, like technical training of engineers, to enhance the quality of human resources in the region. In 1987, the MITI announced the New Asian Industrial Development (AID) Plan, which was the attempt of the MITI to combine state resources such as aid and technical cooperation with private capital and technology. It seems that this plan did not actually achieve significant results and ceased to be part of the ministry's cohesive policy in the early 1990s. Shiraishi explains this disappointing end of the plan as follows. When the MITI presented the plan, "regional economic integration was (and still is) happening anyway, Japanese firms were (and still are) moving production offshore to remain competitive and to avoid protectionism and rising cost at home."<sup>105</sup> Nevertheless, Doner argues that "many of the mixed institutional arrangements that the AID plan both drew on and encouraged have continued to function", and it reinforced the Japanese private sector's own initiatives toward internationalisation.<sup>106</sup> Hatch and Yamamura regard what has

<sup>103</sup> Alan Rix, *Japan's Foreign Aid Challenge*, p. 159.

<sup>104</sup> See in more detail Hatch and Yamamura, *Asia in Japan's Embrace*, pp. 115-129.

<sup>105</sup> Shiraishi, "Japan and Southeast Asia," pp. 189-190.

<sup>106</sup> Richard F. Doner, "Japan in East Asia: Institutions and Regional Leadership," in Katzenstein and Shiraishi, *Network Power*, p. 224-225.

been happening in East Asia as the attempt of the Japanese government to expand the Japanese political economy, namely it is "regionalizing the developmental policies and practices."<sup>107</sup> Likewise, Shiraishi argues that the basic point about the current formal policy line in Japan is "the encouragement and promotion of an Asian economy dynamism with Japanese direct investment, Japanese aid for structural adjustment, infrastructural and human resources development, and Japanese imports from Asian NICs and the ASEAN countries," namely "extension of its politics of productivity beyond Japanese borders onto Asia."<sup>108</sup>

To sum up, these Japanese economic policies, accompanied by the huge inflow of Japanese private capitals into the region, have had a considerable impact on the regional economy, which has led to a closer economic integration in East Asia. Accordingly, the East Asian economy has become more incorporated in Japan's overall economic strategy, while the importance of Japan's economic power in the region continues. Despite the current prolonged stagnation of the Japanese economy, Japan is still of great significance for East Asian countries economically and has still a great influence on the regional economy, as the discussions on the East Asian financial crisis in Chapter 4 will show, although the gradual withdraw of Japanese business, particularly financial institutions, from East Asia may be a sign of the changing picture of the East Asian economy.

What has to be noticed here is that the deepening economic interdependence in the region has greatly influenced Japan's emphasis on East Asia in its foreign policy making. Closer economic ties with East Asian countries have increased Japan's economic stakes in the region considerably; the regional development and stability have been directly linked to the interests of Japanese business. This has made policymakers adopt a more positive policy to secure such stakes, as discussed below.

<sup>107</sup> Hatch and Yamamura, *Asia in Japan's Embrace*, p. 55.

<sup>108</sup> Shiraishi, "Japan and Southeast Asia," pp. 187.

Furthermore, the increasing importance of the East Asian economy, together with the more difficult relations with the US after the end of the Cold War, have triggered vigorous debates in Japanese intellectual and policymaking circles concerning the 'new Asianism' or 'Japan's Asianisation'. A number of leaders of opinion have begun to stress that Japan should put more importance on its East Asian policy.<sup>109</sup> At the same time, this development has also contributed to a greater interest in East Asia among the Japanese public. This awareness of the importance of East Asia by the vast range of the Japanese people could affect Japan's growing interest in becoming more involved in regional matters politically.

Another point to note is that these concerted activities of Japanese public and private sectors have not only influenced East Asia economically, but have also contributed to consolidating Japan's political position in the region, particularly Southeast Asia. Arase argues that "Japanese ODA creates considerable leverage over recipient governments," while consolidating Japan's political relations with East Asia.<sup>110</sup> In other words, while Japan's low-profile economic diplomacy, involving a combination of private and public capitals, has moulded a regional economic order that is essential for Japan's prosperity, it has affected the overall relationship between Japan and the region. This has created long-term Japanese influence, economic as well as political, in the region, and has expanded the sphere of Japan's political activity. Rix describes this as Japan's 'leadership from behind', namely "a style of leadership that aims at creating long-term Japanese influence in the region, and has been a successful form of long-standing 'entrepreneurial' leadership that has carved out a regional role for Japan as investor,

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<sup>109</sup> With respect to these debates, see Akihiko Tanaka, "Higashiajia no anzenhosho to nihon no seisaku [East Asian security and Japan's policy]," in Susumu Yamakage, ed., *Shin Kokusai Chitsujio no Koso [ideas of new international order]* (Tokyo: Nansosha, 1994), pp.132-135. He shows that the trend of new Asianism has risen due to the recognition on the part of influential politicians and business leaders that East Asia has to have a new mechanism to maintain regional security in the post Cold War period, together with the confidence that Japan's East Asian policy, specifically its aid policy, has greatly contributed to the remarkable development of East Asian countries in the 1980s and 1990s.

<sup>110</sup> Arase, *Buying Power*, pp 252-253.

trader, aid donor and political actor."<sup>111</sup>

In fact, it seems that Japan's regional initiatives have become more accepted by neighbouring countries since the early 1990s, although not all the countries, particularly China, North and South Korea, are positive, and Japan still has to deal with its diplomatic relationships with its East Asian neighbours in a very cautious manner. The Malaysian Prime Minister's 'Look East' policy and the East Asian Economic Caucus (EAEC) proposal, which will be discussed shortly, probably suggest such a change. Some countries like Thailand have supported Japan's larger role even in the security area. It is also notable that ASEAN countries generally supported the deployment of the Japanese Self-Defence Force in Cambodia to participate in the UN peacekeeping operation in September 1992. Furthermore, the recent development of the framework of ASEAN + 3 (China, Japan and South Korea), which will be discussed in Chapter 5, can also be seen as an illustration of the region's growing acceptance of Japan's political role in East Asia. Also, it is worth mentioning that, as discussed in Chapter 4 and Chapter 6, Japan's substantial aid during the East Asian financial crisis has significantly improved its relations with regional countries including South Korea, with which Japan has had a very difficult and sensitive relationship throughout the postwar period.

Of course, it should not be forgotten that there are other reasons for this changing regional position of Japan as well, specifically Japan's consistent efforts to improve its regional relations after the adoption of the Fukuda Doctrine, such as almost regular prime ministerial visits to Southeast Asian countries. Also, Hook points out the importance in this respect of Japan's more forthright apologies in the 1990s for its wartime aggression, as "without addressing the outstanding issue of wartime responsibility, no Japanese government will be able to play a full political and military

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<sup>111</sup> Alan Rix, "Japan and Region," pp.62-82.

role in the region."<sup>112</sup> Also, with the end of the Cold War, East Asian resistance to a regional security role for Japan became less uniform and salient.<sup>113</sup> In addition, the fear of the revival of Japanese militarism has been abating to some extent, if it has not disappeared, although the Chinese government, for instance, often expresses its concern about the possibility that Japan would emerge as a military power in the region in order to check Japan's growing presence in the region.<sup>114</sup> In any case, this changing regional relationship of Japan has enabled Japan to make a more independent policy and to exercise more political influence in the region, which will be discussed shortly.

#### Japanese policy towards Asian Pacific cooperation

These low-profile Japanese initiatives, or leadership from behind, to use Rix's phrase, have also been a feature of its policy towards regional cooperation. Japan's interest in Asia Pacific cooperation goes back to the 1960s, as discussed before, and since then Japan has consistently and cautiously promoted it. That culminated in the establishment of APEC in 1989, although it has been more eagerly engaged in East Asian cooperation recently. The latter will be detailed in Chapter 5, and this section focuses on how and why Japan has participated in the development of Asia Pacific cooperation.

The concept of Asia Pacific cooperation, or Pacific cooperation, was developed throughout the 1970s, but was discussed mainly in academic circles like PAFTAD, where Japanese and Australian scholars played a significant role. The original idea behind PAFTA was to help build a free trade area, but it was abandoned during the 1970s and PAFTA evolved into a more loosely structured, government-level

<sup>112</sup> Hook, "Japan and the Construction," p. 198.

<sup>113</sup> Hook et al. *Japan's International Relations*, p. 139.

<sup>114</sup> Tomonori Kojima, "Nihon no higashi ajia seisaku no tenkai [the development of Japan's East Asian policy]," *Kokusai Mondai* 384 (1992), pp. 27-28.



organisation to deal with trade and development issues, similar to OECD. The new organisation was called the Organisation for Pacific Trade and Development (OPTAD), and, by the late 1970s, came to be favourably received in PAFTAD. In this, while the issue of development of regional developing countries became more central, the initial project of a free trade area of developed countries was sidelined.

The concept of Pacific economic cooperation generated by academics gradually penetrated into official circles in the region from around the end of the 1970s. The official espousal of the idea of Pacific Basin cooperation by the then Japanese Prime Minister Masayoshi Ohira, who took office after Fukuda in 1979, triggered this move. Ohira formed the Pacific Basin Cooperation Study Group as one of his personal policy-advisory bodies in March 1979; the group was headed initially by Saburo Okita, who had been a leading economist involved in developing the idea of Pacific cooperation in the 1960s and 1970s.

In addition to Japan, the US also took the idea seriously at the official level. Congress contracted Hugh Patrick of Yale University and Peter Drysdale of the Australian National University (ANU) for a study in 1978, and they submitted a detailed report about OPTAD. Furthermore, some politicians in the ASEAN countries became interested in OPTAD, though they had preferred their own institution of ASEAN.<sup>115</sup>

Thus, the development of Pacific economic cooperation entered a new era in the 1980s. The term of 'Pacific' as a region, which had not been accepted in the first PAFTAD conference in 1968, came to be used extensively by that time, though confined to the PAFTAD circle.<sup>116</sup> Although, when it was first advocated in the 1960s, the concept of Pacific cooperation referred the idea of concerted efforts of the Pacific developed countries for the development of the region's developing countries, this time it was

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<sup>115</sup> Korhonen, *Japan and Asia Pacific Integration*, p. 121.

<sup>116</sup> *Ibid.*, p. 112.

proposed as a framework aimed at advancing regional economic interdependence by cooperation among both developed and developing countries in the region.

The background against which Ohira became interested in Pacific Basin Cooperation can be looked at from two perspectives: international as well as domestic. Internationally, facing the fact that the deterioration in US-Soviet relations, triggered by the Soviet invasion of Afghanistan, reversed the trend of détente of the 1970s, Fukuda's regional policy, which had assumed that Japan had a regional role as an arbiter and intermediary between ASEAN and Indochina, did not work effectively any more. Japan needed a new regional policy in order to show its will to play a larger role in the world as well as in the region. Funabashi argues that "Japan's Asian policy rapidly re-established the primacy of Cold War concerns", and that Ohira's Pacific design "widened the scope of Japan's regional diplomacy and reflected an acknowledgement of Cold War realities."<sup>117</sup>

Furthermore, China's changing relations with the West gave Japan an easier environment to advance regional cooperation. China's isolation in the region until the early 1970s had created an obstacle to Japan's regional policy, as its positive policy towards Southeast Asia, either through bilateral aid or advancing institutionalisation, could possibly be taken for an anti-China policy domestically and internationally.<sup>118</sup> However, the new development of China-West relations reduced the risk that Japan's regional policy would be considered in that way. Kikuchi points out that Ohira's visit to China in December 1979, when he was confirmed in his belief that China preferred economic modernisation and a peaceful international environment to conflict with the Soviet Union, became the turning point in the development of his thinking about the Pacific Basin Cooperation, as it implied the possibility of incorporating China into an

<sup>117</sup> Funabashi, *Asia Pacific Fusion*, p.229.

<sup>118</sup> Watanabe, *Asia Taiheio*, p.117.

Asian framework.<sup>119</sup>

Domestically, Ohira was contesting Fukuda for the premiership and to do this effectively he needed a different foreign policy platform. While Fukuda was identified with an Asian orientation, Ohira fought Fukuda with a package of grandiose visions.<sup>120</sup> Also, Korhonen argues that Ohira had to prevent Japan from being drawn into the reborn Cold War. That is, Ohira, who had inherited an intra-factional tradition from Ikeda and Yoshida, "had to find a way to identify Japan clearly with the United States, but by using such language that Japan's economic orientation could continue. This is where a Pacific economic cooperation initiative fitted in perfectly."<sup>121</sup> In addition, Woods refers to the influence of almost two decades of discussions about Pacific cooperation within Japanese policy-making circles.<sup>122</sup>

Meanwhile, Malcolm Fraser, the then Australian Prime Minister, responded positively to Ohira's idea, and, at two meetings held between the two Prime Ministers in May 1979 and January 1980, they agreed to cooperate in realising Ohira's idea, which led to the Canberra Seminar in September 1980, later referred to as the Pacific Economic Cooperation Conference (PECC) I. Despite the initial reservations of some countries, particularly ASEAN countries, the second PECC conference was held in 1982 in Bangkok, and since then PECC has become a regular conference.<sup>123</sup>

PECC featured a tripartite involvement of academics, business people, and government officials participating in a private capacity from a wide variety of

<sup>119</sup> Kikuchi, *APEC*, pp. 104-105.

<sup>120</sup> Korhonen, *Japan and Asia Pacific Integration*, p. 123.

<sup>121</sup> *Ibid.*, p. 125-126.

<sup>122</sup> Lawrence T. Woods, *Asia Pacific Diplomacy: Nongovernmental Organizations and International Relations* (Vancouver: UBC Press, 1993), p. 90.

<sup>123</sup> The third conference in 1983 was named PECC for the first time and the first and second conference were referred as PECC I and PECC II respectively. (Korhonen, *Japan and Asia Pacific Integration*, p. 132.)

countries, both developed and developing.<sup>124</sup> This is partly because ASEAN countries were reluctant to have an official level conference due to fear that it could compete in importance with its own institution of ASEAN.<sup>125</sup>

It should also be noted that the private nature of PECC was in accord with what Japanese policymaking agents considered preferable.<sup>126</sup> The report of Ohira's Pacific Basin Cooperation Study Group stated that it would be difficult to create a governmental level organisation immediately, given the complicated diplomatic relations in the Pacific area. MOFA officials, basically agreeing with the advice of the report, considered that it was essential to take a cautious and gradual approach to advancing Pacific cooperation. They thought that forming an extensive and formal framework would not be practical at that time, and that such an agenda had to be worked on in the middle and long-term perspective. In order to keep the momentum, Japanese officials hoped that the Canberra seminar would reach an agreement to establish an informal body to further the idea of Pacific cooperation.

It must be noted that despite its unofficial status, PECC has strong official links. Woods argues that state officials in an unofficial capacity are "regarded by many as a polite fiction," and that they are "state representatives, though the state belief that they are attending as private citizens does allow them to attach a disclaimer to everything they say and ensures that their home governments will not be obliged to uphold any decisions taken."<sup>127</sup> Thus, while the private nature of PECC gives flexibility in the way in which participants discuss and interact across countries as well as sectors, their

<sup>124</sup> The countries concerned were Australia, Canada, Japan, New Zealand, the US, the five ASEAN countries, South Korea and South Pacific countries, which were joined by the representatives of PAFTAD and PBEC. Thus, the Canberra seminar provided an opportunity to bring together people and organisations that had previously worked for Pacific cooperation on their own. (Kikuchi, *APEC*, p. 127)

<sup>125</sup> Susumu Yamakage, "Japan's National Security and Asia-Pacific's Regional Institutions in the Post-Cold War Era," in Katzenstein and Shiraishi, eds., *Network Power*, pp. 284-285, and Kikuchi, *APEC*, p. 127.

<sup>126</sup> The following discussion about Japan's stance on this point draws on Kikuchi, *APEC*, pp. 110-136.

<sup>127</sup> Woods, *Asia Pacific Diplomacy*, p. 117.

activities in a series of conferences has greatly affected government-level thinking on regional cooperation through deepening the understanding and knowledge of state officials. In fact, Woods notes that PECC activities stimulated some inter-governmental initiatives later, such as the establishment of the ASEAN-PMC as well as the initiation of the Cairns Group and, more importantly, APEC.<sup>128</sup>

It is interesting to note that, despite Ohira's strong attachment to the idea of Pacific cooperation, Japan hesitated to come to the fore alone, and chose to advance the idea by supporting Australian leadership on this issue. As soon as the interim report of his Pacific Basin Cooperation Study Group was presented, Ohira visited Fraser to discuss the agenda in January 1980, stressing the significance of Pacific cooperation. According to the agreement reached at this meeting, Foreign Minister Okita asked John Crawford of the Australian National University (ANU), who had been one of the prominent scholars in PAFTAD, to organise the first seminar at ANU. This can be interpreted as a choice on the part of Okita against holding the conference in Japan, where he would have been put in a more exposed position. The choice of venue for the conference was in a sense reasonable, as Japanese and Australian scholars had been at the centre of efforts to develop the concept of Pacific cooperation in the 1960s and 1970s. It is reported that Ohira's secretary thought that because of Australia's strong research and interest in Pacific cooperation, Australia would best understand and promote Ohira's Pacific Basin Cooperation Concept ahead of other countries.<sup>129</sup>

However, it is reasonable to assume that there must have been some other reasons why Japan had not proposed that idea on its own. For one thing, if Japan had done so, East Asian countries could have criticised it as Japan's attempted control of East Asia or its new effort to create a Greater East Asia Co-prosperity Sphere. By taking the initiative in partnership with Australia or allowing Australia to assume a central role, it could

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<sup>128</sup> Ibid., p.115.

<sup>129</sup> Terada, "The Origins," pp.349-350.

evade such criticisms to some extent.<sup>130</sup> In addition, the US was also quite sceptical about Japan's positive move on regional projects, as it was worried that Japan was trying to create an East Asian block and to accumulate power over the region. Japanese policymaking agents considered that jointly proposing and advancing the concept could contribute to lessening this concern of the US.<sup>131</sup>

To sum up, the idea of Pacific cooperation, which had been developed mainly in the academic circles in the 1960s and 1970s, gradually came to be entrenched among Japanese policymaking agents, following the then Prime Minister Ohira's strong interest in it. However, Japan was very cautious in the way it promoted this agenda. Japanese policymakers considered that it was not practical to push ahead a governmental organisation, and that this should be a long-term goal, which could be pursued through a series of discussions and interactions within a private-level body. Japan was also cautious not to be regarded as taking an independent regional initiative, and preferred to act with Australia so that it could apparently dilute its influence, in consideration of the concerns of East Asian countries and the US about Japan's dominance in the region. Indeed, this style of promoting regional cooperation incrementally and cautiously can be observed repeatedly in Japan's later policies on this subject, as discussed below and in Chapter 5 and Chapter 6.

The formation of APEC in 1989, which is a government-level economic forum, as opposed to the unofficial status of PECC, marked a watershed in regional cooperation in Asia-Pacific. The fear that the expanding regional arrangements in North America and Europe might become protectionist, as well as the possibility that the multilateral trading system would collapse in the light of the difficulty of the Uruguay Round of the GATT made countries in the Asia Pacific region concerned about the future of the international trading system. This was the impetus for the creation of APEC. However,

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<sup>130</sup> Kikuchi, *APEC*, p. 123.

<sup>131</sup> *Ibid.*, p. 123.

it should be noted that the remarkable economic growth of the East Asian countries and increasing economic interdependence in the region laid the foundation for APEC, which was greatly supported by the continuing processes of unofficial cooperation, namely PAFTAD, PBEC, and PECC.

Against this background, both the Japanese and the Australian governments came to consider some new framework in the region. However, it was Australia that took a direct initiative. Australian Prime Minister Robert Hawke called for a formal regional mechanism for cooperation in Asia-Pacific in January 1989, and this led to the establishment of APEC, which originally comprised the six ASEAN nations, Australia, Canada, Japan, Korea, New Zealand, and the United States; China, Hong Kong and Taiwan joined in 1991, Mexico and Papua New Guinea in 1993, and Chile in 1994. Australia's original plan excluded the US, but later accepted the MITI's strong insistence on the need for including the US in the original list of members.

Despite the significant initiative of Australia in founding APEC, some stress that Japan assumed more than a supportive role in the process.<sup>132</sup> Prior to the Hawke initiative, the MITI's study group started to consider the issue in early 1988, and its interim report, which came out in June 1988, proposed the establishment of a government-level framework for economic cooperation in Asia Pacific. As Krauss notes, "this report envisions APEC in the form it eventually developed: an open, regional forum of economies with government participation cooperating to achieve more integrated and balanced growth with a gradualist and consensual approach respectful of the region's diversity."<sup>133</sup> Hawke responded to the report very positively, and since then the MITI and the Australian government worked together to persuade other countries.

<sup>132</sup> See Funabashi, *Asia Pacific Fusion*, and Ellis S. Krauss, "Japan, the US, and the Emergence of Multilateralism in Asia," *The Pacific Review* 13, 3 (2000). The following discussions draw on these studies.

<sup>133</sup> Krauss, "Japan, the US, and the Emergence of Multilateralism in Asia," p.477.

However, Japan let Australia take the initiative, and itself assumed a behind-the-scenes role. Funabashi points out various reasons for Japan's inactivity with respect to its APEC policy: bureaucratic turf battles between the MITI and the MOFA, domestic pressure from agricultural constituencies to oppose trade liberalisation, especially of rice, the Japanese decision-making processes such as bottom-up consensus building, and the lack of political leadership.<sup>134</sup> The MOFA's adamant opposition to the MITI's initiative was based not only on jurisdictional territorial rivalry, but also its belief that the East Asian nations do not accept Japan's prominent leadership.<sup>135</sup> MITI officials also shared the same concerns as the MOFA. It was reported that there was a fear among MITI officials that the idea of a regional grouping could raise for some countries the spectre of the Greater East Asian Co-Prosperity Sphere concept of the 1930s and 1940s, and thus MITI contented itself with a secondary, low-profile role.<sup>136</sup> A remark of Shigeo Muraoka, the then vice-minister in international affairs and responsible to the MITI for creating APEC, confirmed this point: "[t]he reason I thought Japan should maintain a low-profile and that Australia should take the initiative in organising APEC instead, lay in the belief that memories of the Co-Prosperity Sphere still pervaded the region and people would not readily support a Japanese idea which might remind them of the old awful days. I thought the problem of the Co-Prosperity Sphere was deeply rooted."<sup>137</sup> In short, it can be argued that the concern about the possible negative reactions of regional countries to Japanese initiatives again prevented Japan from taking a prominent leadership role, and made it keep a low-profile, as in the case of PECC.

As to the significance of APEC in Japanese foreign policy, it was argued before that the concept of Asia Pacific cooperation fits in well with the fundamental diplomatic goal of Japan, namely balancing its relations with the US and East Asia. APEC is

<sup>134</sup> Funabashi, *Asia Pacific Fusion*, pp. 211-220.

<sup>135</sup> Krauss, "Japan, the US, and the Emergence of Multilateralism in Asia," p. 480.

<sup>136</sup> *Japan Economic Journal*, 8 April 1989, and 10 June 1989.

<sup>137</sup> Cited in Terada, "The Origins," pp. 345-346.



indeed a successful means for pursuing such a policy, and accommodates the diplomatic situation of being caught between the US and Asia, which Japan has been grappling with for a long time. It was the realisation of what the Japanese government had pursued since the 1960s, namely regionalism incorporating the US and East Asian countries. Japan in fact aimed at dealing with a number of important diplomatic agendas with the US and East Asia simultaneously through the framework of APEC. The inclusion of the US in APEC was seen by Japanese officials to contribute to the containment of US unilateralism and to prevent the US from turning away from multilateral frameworks in their trade policy and becoming inward-looking. Also, in terms of security, Japan, feeling nervous about a possible US withdrawal from the region after the Cold War, expected APEC to play a role in keeping the US engaged in the region. The US commitment to regional security is still important to Japan as well as to the region, as there remain a number of potential conflicts in East Asia, such as the Korean Peninsula. Also, Japanese officials are aware that many of its neighbours accept Japan's growing presence, economically as well as militarily, in the region only because the US-Japan security alliance guarantees that Japan will not disturb regional order and threaten its neighbours. On the other hand, APEC is regarded as "an instrument that Japan is using to strengthen its ties with ASEAN."<sup>138</sup> It has become particularly important for Japan when it was aspiring to a political role in East Asia in the 1990s, as touched on before.

However, the alternative option that came from the Malaysian Prime Minister Mahathir in 1990 created a problematic issue for Japan. It was the proposal to form EAEG (later EAEC), which was to be an 'Asian only' group that excluded North American and Oceanian countries. Japan's participation was considered crucial; Mahathir intended to anchor Japan to East Asia<sup>139</sup> and expected it to take the lead.

<sup>138</sup> Funabashi, *Asia Pacific Fusion*, p. 197.

<sup>139</sup> Linda Low, "The East Asian Economic Grouping," *The Pacific Review* 4, 4 (1991), p. 375.

Apparently the US and Australia strongly opposed such an idea.

Japan's response was ambiguous and it did not take a decisive stance on the Malaysian proposal. On one hand, Japan obviously could not risk its US relations by endorsing EAEG in the face of US objections. In fact, the US strongly pressured Japan not to accept the proposal. The fact that there was no consensus on EAEG even among the ASEAN countries made Japan's stance more difficult as Japan was still very wary of the sensitivity of East Asian countries about Japan's regional presence. Furthermore, the negative image that EAEG would give the world, and thereby the possibility of risking important American and European markets, was another concern of Japan, although the Malaysian government explained that it did not intend to establish an exclusive economic block.

On the other hand, Japan was not able to dismiss the EAEG concept, either. The proposal struck a chord with a great number of 'Asianists' in Japan, including prominent politicians, many bureaucrats in elite ministries such as the MOF, the MOFA and the MITI, and business people and organisations like Keidanren and Keizaidoyukai.<sup>140</sup> The increasing economic interdependence in the region as well as the heightening tension of economic relations between the US and Japan were partly the reasons for more favourable views on EAEG in Japan. Also, the fact that the US itself had committed to the North American Free Trade Agreement (NAFTA) provided reasons for supporting EAEG. However, what is more noteworthy is that they reflect Japan's growing willingness to play a greater political role in the region beyond merely exercising economic power, independent of the US. It is no wonder that Japanese policymakers saw the idea of EAEG as a great opportunity to take a leadership role in East Asia.

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<sup>140</sup> Richard Higgott and Richard Stubbs, "Competing Conceptions of Economic Regionalism: APEC versus EAEC in the Asia Pacific," *Review of International Political Economy* 2:3 (1995), p. 527, Funabashi, *Asia Pacific Fusion*, p. 208.

It can be argued that this inconclusiveness of Japan with respect to EAEG amounts to saying that Mahathir's proposal re-awoke Japan's long-standing identity question of where Japan belongs, or 'Japan's East versus West dilemma'.<sup>141</sup> Likewise, Yamakage argues that the proposal "worked as a litmus test of the Japanese public's inclination to either Asia or the United States."<sup>142</sup> Hook joins these views, stating that "Japanese response to competing forms of regionalism can be said to have crystallised around the question faced by respective governments since the Meiji era: how relations with Asia, on the one hand, and the West, on the other, should be balanced."<sup>143</sup> As long as Japan advocates the concept of Asia Pacific, it could escape from meeting the question head-on, and indeed the EAEG proposal forced Japan to consider this identity question anew.

Although Japan could not respond decisively to the EAEG proposal in the early 1990s, the idea has re-emerged since the late 1990s, and this time Japan has not hesitated to give full support to the framework. The change in Japan's stance on East Asian regionalism is indeed radical, given its consistent support for Asia Pacific cooperation and its earlier indecisive attitude towards EAEG. It will be discussed in detail in Chapter 5 how and why Japan has been positively involved in that process.

Finally, it is worth noting here that the interest of Japanese policymakers in Asia Pacific regionalism for the last few decades can be understood in the context of Japan's overall foreign policy goals or national interests, namely economic prosperity, political stability and higher international status. As discussed earlier, Japanese policymakers originally aimed at promoting the economic development of East Asian developing countries through cooperation with the Asia Pacific developed countries, as they recognised that the development of East Asian countries, and hence political

<sup>141</sup> Funabashi, *Asia Pacific Fusion*, p.231.

<sup>142</sup> Yamakage, "Japan's National Security," p.299.

<sup>143</sup> Glenn Hook, "Japan and Contested Regionalism," in Ian G. Cook, Marcus A. Doel and Rex Li, eds., *Fragmented Asia: Regional Integration and National Disintegration in Pacific Asia* (Aldershot, Hants: Avebury, 1996), pp.25-26.

stability there, were an essential part of Japan's own prosperity and stability. Also, as shown above, Ohira's strong attachment to Pacific Basin Cooperation partly reflected the perception that Japan had to show its willingness to assume a greater political role under the re-emerging Cold War reality. With respect to the establishment of APEC, the MITI, and to a lesser extent the MOFA, seriously considered how Japan would be able to pursue and maintain its economic interests given the expanding regional arrangements in North America and Europe as well as the uncertain future of the multilateral trading system. Thus, it can be argued that, against the background of the Japanese policymakers' consistent interest in Asia Pacific regionalism, the policies pursued in this area have reflected an effort to promote Japan's economic and political interests; these policies represented strategies for the pursuit of specific national goals.

#### Japan's increasing interest in taking more political and security initiatives in the region

In addition to these initiatives behind the scenes in developing regional cooperation, Japan began to show greater interest in taking more political initiatives particularly in East Asia. As mentioned before, by the 1980s Japanese policymaking agents began to realise that economic policy, specifically aid policy, alone was not enough to fulfil the international responsibilities that befitted a country of Japan's economic strength. Prime Minister Yasuhiro Nakasone, who assumed office in 1982, tried to pursue more positive political roles and to enhance Japan's presence internationally. He was proactive particularly in the security area, and abolished the one percent (of gross national product - GNP) ceiling on military spending,<sup>144</sup> although this policy caused domestic and regional concerns about Japan's military intentions. Subsequent Prime Minister Noboru Takeshita, given the thaw in Cold War tensions, suggested that Japan had to participate in forming a new international order. He specifically proposed three pillars of this international contribution, namely (1) further economic cooperation

<sup>144</sup> Japan's military spending exceeded one percent of GNP in 1987 (1.004%), and has been around one percent or less thereafter.

through the expansion of ODA, (2) the advancement of cultural exchange and (3) cooperation for peace including more positive diplomatic efforts and the dispatch of people. Tadashi Ikeda, a senior MOFA official, explains that this third pillar of cooperation for peace reflects the thought that Japan has to contribute to settling international conflicts not only through economic means but also by diplomatic efforts and the dispatch of people, which led directly to discussions in the ministry concerning Japan's participation in UN peacekeeping operations (PKO).<sup>145</sup> In fact, the MOFA began to discuss this issue at that time, but the resignation of Takeshita, due to a political scandal, made the ministry put these plans on hold.<sup>146</sup> In short, Japan's rise as an economic power by the 1980s, along with strong external pressures, made Japanese policymakers aware that Japan had to take a more positive political stance internationally. This consideration has been strengthened since the end of the Cold War, as discussed above.

Japan's direct involvement in the Cambodian peace from the late 1980s is particularly noteworthy, as it shows Japan's willingness to take an independent initiative particularly in a regional conflict, where Japan had previously avoided being involved.<sup>147</sup> After the outbreak of the Cambodian dispute in 1978, ASEAN took the lead in forming the framework of a dialogue for resolving the conflict, and Japan was consistently supporting ASEAN's policies, independently of US interests, although Japan did not itself play an important role in the events. Successive Foreign Ministers and Prime Ministers in the 1980s kept stressing Japan's full support of the ASEAN stance concerning the dispute resolution. However, in the late 1980s, Japan took a step further by following the above proposal of Takeshita for international cooperation. It maintained good cooperation with ASEAN but it did not support it unconditionally,

<sup>145</sup> Tadashi Ikeda, *Kanbojia Waheicno Michi [the way towards Cambodian peace]* (Tokyo: Toshi Shuppan, 1996), p. 19.

<sup>146</sup> Ikeda, "Reisengo no nihon," p. 234.

<sup>147</sup> The following account on Cambodian peace draws on Takeda, "Tonan ajia gaiko," Green, *Japan's Reluctant Realism*, and Masaharu Kono, *Wahei Kosaku [a Cambodian peace strategy]* (Tokyo: Iwanami, 1999).

and became involved more directly in that regional dispute. Japan tried to establish contacts between the four parties in Cambodia (the Hun Sen's government in Phnom Penh backed by Vietnam, the Khmer Rouge backed by China, Prince Sihanouk's faction and Son Sann's faction), which were in conflict with one another, while strengthening the negotiation channels with the countries concerned. This was a quite different approach from either the US, who supported the anti-Hun Sen forces one-sidedly, or ASEAN, who was divided over the policy. Japan convened a conference and invited the four factions to Tokyo in June 1990, which produced some significant results, such as the signing by Hun Sen and Sihanouk of a communiqué that included a statement on a power-sharing framework between the factions. This gave momentum to the peace process, leading to agreement on a draft peace document in the UN. However, the implementation process did not go smoothly as Hun Sen was resisting some parts of the agreement, such as disarmament. Under the circumstances Japan again took initiative, and in February 1991, proposed a modified peace plan that compromised with Hun Sen. The US was highly critical about this independent effort of Japan, but Japan tried to convince the parties concerned, and in the end all the four factions settled on a new plan largely based on the Japanese proposal. It could be argued that Japan not only contributed its substantial financial resources to the peace process, but also took a quite independent diplomatic role, which eventually contributed to the conclusion of the peace agreement in Paris in October 1991.

Thereafter, Japan continued to contribute to Cambodian issues. Japan hosted almost all of the major international conferences on Cambodian economic reconstruction,<sup>148</sup> and pledged a substantial amount of economic contributions. In addition, Japan finally dispatched the SDF to take part in the PKO in Cambodia, after the Japanese Diet passed the International Cooperation Law in June 1992. As Drifte argues, this has become the focal point for Japan's ability and willingness to contribute to the

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<sup>148</sup> Green, *Japan's Reluctant Realism*, p. 176.

maintenance of the international system beyond cheque book diplomacy.<sup>149</sup> Also, Japan committed personnel to monitoring the Cambodian election in 1993.

In short, Japanese policies towards Cambodian peace and economic reconstruction showed that Japan is willing to take more independent initiatives diplomatically. Green claims that the most striking motivation for the above Cambodian diplomacy of Japan was ideational, namely the MOFA's desire to demonstrate that Japan could play a leadership role in Asia as a normal country.<sup>150</sup> In addition, Tadashi Ikeda, who was directly involved in the peace process as the Japanese minister to Thailand, writes that, even if Japan had remained indifferent to the issues of the Cambodian peace, it would still have been asked to pay the bill, as in the case of the Gulf War. And since Japan does pay the bill, this makes it difficult to justify why Japan would not or could not participate directly in the processes through which a new order that Japan considers to be right becomes established. He argues that just paying a bill has become domestically unacceptable.<sup>151</sup>

In addition to the diplomatic effort concerning a series of Cambodian issues, Japan began to engage in the establishment of some regional frameworks in an area of great sensitivity, namely regional security arrangements. After the Second World War, Japan contributed to regional security only indirectly through the US-Japan Security Treaty. The US preferred the hub and spokes system in East Asia rather than multilateral arrangements like in Europe, while Japan showed only the slightest interest in a direct leading role for security issues as that was considered not to be acceptable domestically and regionally. Thus, the change in Japan's stance in this area is particularly notable.

Japan was first unenthusiastic about this issue, when Australia, then followed by

<sup>149</sup> Drifte, *Japan's foreign policy*, p. 140.

<sup>150</sup> Green, *Japan's Reluctant Realism*, p. 179.

<sup>151</sup> Ikeda, *Kanbojia Waheieno Michi*, pp. 18-19.

Canada, proposed an Asian version of the Conference on Security and Cooperation in Europe (CSCE) in 1990. This proposal was dropped when it could not obtain support from ASEAN or any major country in the region including the US and China. Nevertheless, soon after that ASEAN began to consider the idea that ASEAN-PMC could be expanded to multilateral security arrangements in the post Cold War period, while the Japanese government also became interested in the possibility of a new framework for regional stability.

In July 1991, Japanese Foreign Minister Nakayama formally proposed to use the ASEAN-PMC for a region-wide security forum. Although the Japanese proposal failed to get support from the countries concerned at that time, it was a significant gesture for Japan: it formally announced a substantial change in its stance on security policy, which used to be very negative about multilateral security arrangements.<sup>152</sup> Likewise, Midford claims, "[t]he Nakayama proposal represents a bold departure from Japan's reactive policy toward regional security, and marked the first time since the end of the Second World War that Japan made a regional security initiative on its own, let alone in the face of clear American opposition."<sup>153</sup> Despite the negative reactions of regional countries to the Nakayama proposal, the proposal encouraged ASEAN countries to think about this issue more seriously,<sup>154</sup> and eventually the ASEAN leaders declared at the Singapore summit in January 1992 that ASEAN should intensify its external dialogues in political and security matters by using ASEAN-PMC. Japan also tried to convince the US of the significance of multilateral approaches with respect to regional security. In fact, there is evidence that the then Prime Minister Kiichi Miyazawa and the MOFA explained quite assertively Japan's stance on various occasions,<sup>155</sup> although the US did not fully accept the idea of a security framework in East Asia until Bill

<sup>152</sup> Kikuchi, *APEC*, p.269.

<sup>153</sup> Paul Midford, "Japan's Leadership Role in East Asian Security Multilateralism: the Nakayama Proposal and the Logic of Reassurance," *The Pacific Review* 13, 3 (2000), p.368.

<sup>154</sup> Kikuchi, *APEC*, p.270.

<sup>155</sup> See Drifte, *Japan's foreign policy*, p.84, and Kikuchi, *APEC*, pp 271-272.



Clinton took office in 1993.<sup>156</sup> At the same time, ASEAN played a significant role in advancing the agenda through examining the issue at the ASEAN Institute of Strategic and International Studies (ISIS). The idea to use ASEAN-PMC as a regional security forum ran into difficulties, as there was strong resistance within ASEAN to including Russia and China in ASEAN-PMC, an idea which was developed in talks between ASEAN and Western developed countries.<sup>157</sup> In the end, it was agreed at the ASEAN foreign ministers' meeting in July 1993 to establish a new framework, the ARF, separately from ASEAN-PMC, and the following ASEAN-PMC meeting endorsed the idea. The first meeting of the ARF was held in 1994 in Bangkok, joined by ASEAN (then six countries), its dialogue partners (Australia, Canada, Japan, New Zealand, South Korea, the US and the European Union (EU)), China, Russia, Laos, the Papua New Guinea and Vietnam.

The change in Japan's stance on regional security reflected the various impacts of the end of the Cold War on Japanese foreign policy discussed above. Specifically, given the inevitable reduction of the US military presence in East Asia and the limitation of Japan's security contribution only through the US-Japan Security Treaty under the post Cold War conditions, Japanese policymaking agents have begun to recognise the need for a larger security role in the region for Japan, taking into account the potential benefits of some new regional security orders that could supplement the existing regional framework based on bilateral relations. Such regional multilateral security frameworks could not only help to fill the possible security vacuum in East Asia, but could also help Japan to define its political status and roles in the region in the post Cold War era. Kikuchi argues that such an initiative could give Japan an opportunity to recover the honour of its diplomacy that was tarnished during the Gulf War.<sup>158</sup> Furthermore, Midford points out that a unilateral Japanese contribution to regional

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<sup>156</sup> Kikuchi, *APEC*, pp.271-272.

<sup>157</sup> Ohba, "Chiikishugi," p.271.

<sup>158</sup> Kikuchi, *APEC*, p.267.

security would likely backfire, considering Japan's uneasy relations with regional countries; instead, Japan has an interest in developing stronger multilateral frameworks.<sup>159</sup> He further claims that Japanese policymakers identified the multilateral approach as a primary means for directly reassuring ASEAN states about the implications of its expanding security role.<sup>160</sup>

In short, the process through which the ARF was created is of great significance when considering the recent Japanese foreign policy. It shows that Japan began to consider regional multilateral security arrangements, and actually took assertive actions and tried to make the US understand its intentions. Although ASEAN assumed a central role in realising the ARF, it is reasonable to say that Japan also contributed to pushing ahead the agenda to a significant extent.

Finally, it should be noted that Japan is not replacing the existing security system in East Asia centred on the US-Japan Security Treaty with regional frameworks. Rather, multilateral mechanisms in East Asia (or Asia Pacific) are considered as supplements, not substitutes, to existing bilateral frameworks,<sup>161</sup> and they are not aimed at creating firm relations, like a security alliance, but a looser entente.<sup>162</sup> Yukio Takeuchi, a senior MOFA official, comments that the ARF can offer opportunities for regional security dialogues, but is not enough to maintain regional security, nor is it realistic to consider the establishment of a NATO-like organisation for collective actions in East Asia, hence it is necessary to keep the US engagement through the existing network of bilateral alliances.<sup>163</sup>

### **Conclusion**

<sup>159</sup> Midford, "Japan's Leadership Role," pp.389-390.

<sup>160</sup> Ibid., pp.389-390.

<sup>161</sup> Kikuchi, *APEC*, p.284.

<sup>162</sup> Ibid., p.277.

<sup>163</sup> Comment in a panel discussion featured in *Kokusai Mondai* 490 (2001), p.12.

This chapter has thematically looked at what Japan has done in East Asia since the end of the Second World War, and has demonstrated some important shifts in Japanese foreign policy. Japan's foreign policy during the early postwar period was quite limited in scope and greatly influenced by US global strategies, although it would be an exaggeration to say that Japan's policy was merely a reaction to US pressures. However, Japan has gradually been more eager to take initiatives not only economically, but also politically. Even in security issues Japan has become more positive, compared to its earlier reticence, particularly since the 1990s. Economic resources are still the main tool of its foreign policy, but Japan has begun to make more diplomatic efforts than before, and has shown its willingness to participate in creating new international and regional orders. Also, Japan has begun to pursue regional policy more independently, rather than conducting it as an extension of US policy, although there is overall consistency with US interests, and the continued US engagement in East Asia is an important priority. The chapter has also discussed the style of Japanese foreign policy, and has shown how Japan has quietly pursued its agendas. In many cases Japan has avoided taking dominant initiatives, and preferred low-profile approaches, but in a long-term perspective, this style has enabled Japan to achieve its interests. The subsequent chapters will look at these discussions in more specific cases, which will not only offer empirical narratives of great significance to the study of Japanese foreign policy, but also consider in more depth what has caused the shifts in Japanese foreign policy identified above and what has made Japan adopt this unassuming style in its foreign policy.

## CHAPTER 3

### **The Washington Consensus versus the Japanese Approach and Implications for the East Asian Financial Crisis**

This first case study is about how Japanese policymakers, specifically MOF officials, have tried to challenge the popular discourse of the neoclassical doctrine among policymaking agents in international organisations and major developed countries as well as Western academics, referred to as the Washington Consensus.<sup>1</sup> One of the main aims of this chapter is to demonstrate the difference between the Japanese approach on economic development and systemic transition and the Washington Consensus. It will discuss how different their approaches to development and transition are, why Japan has become increasingly vocal in its policies since the late 1980s, and how arguments between Japan, specifically MOF officials, and the Washington Consensus institutions, particularly the World Bank, were developed throughout the 1990s. Subsequently, the last section of this chapter will discuss how this divergence of views is reflected in their different positions over the causes of the East Asian financial crisis in 1997 and 1998.

These points are of great significance for the arguments of the thesis. Firstly, the quite critical manner in which Japan has advocated its approach against the Washington Consensus offers additional evidence of Japan's increasing assertiveness in its foreign policy in opposition to the argument that Japan has been merely reacting to outside pressures, which was discussed in a historical context in Chapter 2. Secondly, this ideological disparity and the resultant difference of views on the crisis, together with the growing discontent of Japanese officials about the fact that Japan does not have a

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<sup>1</sup> This term, coined by John Williamson (John Williamson, "What Washington Means by Policy Reform," in John Williamson, ed., *Latin American Adjustment: How Much Has Happened?* (Washington: Institute for International Economics, 1990)), is used in this thesis as the view on desirable economic management based on the neoclassical orthodoxy, shared by Washington based international organisations, specifically the World Bank and the IMF, and major developed countries, particularly the US and the United Kingdom.

voice in the Western dominated organisations despite its large contribution, will help to understand Japan's positive policies towards the East Asian financial crisis as well as its growing interest in East Asian regional frameworks, which will be discussed in detail in the following chapters. This is particularly because the main figures involved in the above debates on the Japanese side are MOF officials, who played leading roles in the crisis and East Asian monetary regionalism as well.

#### **Policy debates on development and transition between Japan and Washington**

As mentioned above, Japanese policymakers, specifically MOF officials, and academics engaged in the country's aid policy, backed by various Japanese and Western academic works, have advocated approaches for economic development and systemic transition that are considerably different from the neoclassical orthodoxy, which has dominated policy debates since the late 1980s. The Japanese government has convened numerous workshops and conferences within the Japanese development aid circles, consisting of officials and economists, which have led to a broad consensus on the alternative approach towards development and transition.<sup>2</sup>

Strictly speaking, it is highly debatable to what extent there is 'consensus' among the major players in Washington and among those in Japan. In particular, as discussed below, the World Bank and the IMF do not always speak with the same voice, as the World Bank has been groping for a new approach to development throughout the 1990s. Even within the World Bank and the IMF, there are quite diverse opinions.<sup>3</sup> Furthermore, after the predominance of the neoclassical doctrine in the 1980s and 1990s, the East Asian financial crisis that occurred in 1997 and spread worldwide has generated a 'mood swing' from this consensus to another, which is emerging as the

<sup>2</sup> Kenichi Ohno, "Overview: Creating the Market Economy," in Kenichi Ohno and Izumi Ohno, eds., *Japanese Views on Economic Development: Diverse Paths to the Market* (London: Routledge, 1998), p.1.

<sup>3</sup> Juichi Inada, "Washington konsensasu vs nihongata apurochi [Washington Consensus vs. the Japanese approach]," *Gaiko Jiho* 1341 (1997), pp.15-16.

'Post-Washington Consensus'. The essence of this change is a greater emphasis on civil society, institution building, safety nets and governance, which are added to the well-known vocabulary of the neoclassical orthodoxy, namely liberalisation, deregulation and privatisation.<sup>4</sup> In particular, the recognition of the significance of governance, which "is underwritten by: (1) a managerialist ideology of effectiveness and efficiency of governmental institutions and (2) an understanding of civil society based on the mobilization and management of social capital rather than one of representation and accountability," is not historically trivial,<sup>5</sup> and contrasts with the emphasis of the Washington Consensus on the shrinking role of the state. On the Japanese side, there are, of course, a number of Japanese neoclassical economists, thus it may be that the Japanese consensus is limited to a specific community responsible for Japan's aid policy.<sup>6</sup>

Nevertheless, it is important to note that there have been fundamental differences of opinion between the development assistance communities of Washington and Japan on what policies developing and transition economies should adopt. The disagreement between them is not simply a battle for establishing the order of importance between the state and the market as means towards achieving economic goals such as increased productivity, efficiency and growth. Japan has never disregarded market mechanisms, and on the contrary has put great importance on them, while Washington-based officials and economists admit a certain role for the state. The differences emerge in relation to the path that is taken towards a market economy. In other words, the point is the difference of their views on how developing, or transition, economies can achieve a market economy and can begin to enjoy its benefits. Based on Japan's own development experience, Japanese officials have put much greater emphasis on the

<sup>4</sup> Kanishka Jayasuriya and Andrew Rosser, "Economic Orthodoxy and the East Asian Crisis," Working Paper no.94, the Asian Research Centre, Murdoch University.

<sup>5</sup> Richard Higgott, "Contested Globalization: the Changing Context and Normative Challenges," *Review of International Studies* (2000), pp.140-141.

<sup>6</sup> However, Kenichi Ohno comments that, unlike the US and the UK, the scholars that have supported the Japanese approach are on the side of the majority. (Interview, April 3, 2001)

role of the state than neoclassical economics. In this sense, the recent swing in international political communities and academics towards a greater appreciation of the role of institutions seems to have made the gap noticeably narrower between the Washington Consensus and Japan, although there still are divergences of views between them. The following section will discuss the differences between their approaches by considering two issues, which are closely related: (1) the role of the government in development and transition and the efficacy of industrial policy, and (2) the issue of the sequence and time span of liberalisation

(1) The different views on the role of the government and the efficacy of industrial policy

Neoclassical economists basically assume the existence of markets, or, at the very least, they consider that markets are achievable in a few years, while trying to remove government involvement in the economy as soon as possible. Accordingly, to them the way developing and transition countries should follow is merely to liberalise immediately their economic systems, through domestic and external deregulation and the privatisation of state-owned enterprises while following strict macroeconomic restraints. On the other hand, in the light of Japan's past economic achievements as well as that of other East Asian countries, Japanese policymakers and academics put more importance on the role of the government. They think that governments should take more active roles than neoclassical economics assumes in introducing and establishing market mechanisms. According to people in the Japanese policymaking circle, effective market mechanisms exist only in economies that have reached a certain level of development and cannot be created merely by liberalisation and deregulation. Throughout the 1990s, the World Bank has partially modified its position on the role of the government and, for instance, some of its officials have watched governance issues more closely, as argued below. At the same time, it seems that the

IMF has been sticking more strictly to its traditional approach, at least until the East Asian financial crisis.

The above difference of views about the role of the government has been particularly conspicuous over arguments on the efficacy of industrial policy. The rationality of targeted intervention by government to alter an industrial structure has been subjected to intense debate not only between Washington and Japan, but also academics in general, but as yet no clear consensus has emerged.

People working within the neoclassical orthodoxy deny that industrial policy is effective, arguing that it distorts market mechanisms and that such a policy is not only unnecessary, but can be harmful. They argue that each country's industrial structure must be realised through efficient allocation of resources by market mechanisms. Krugman and Obstfeld point out the reasons why most neoclassical economists studying this issue have been sceptical about the importance of industrial policy, as follows. Firstly, East Asian economies have followed a wide variety of policies, ranging from extensive government intervention in Singapore to virtual laissez-faire in Hong Kong, or from deliberate promotion to form very large industrial firms in South Korea to the dominance of small, family-run companies in Taiwan. Yet all these economies have achieved similarly high growth rates. Secondly, the actual impact on industrial structure is not certain and is difficult to assess, despite considerable publicity given to industrial policy. Thirdly, there have been some notable failures of industrial policy, for example, South Korea's promotion of heavy and chemical industries from 1973 to 1979.<sup>7</sup>

On the other hand, Japanese officials argue that there are certain sectors, particularly in developing countries, that require special support by the government at least for a

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<sup>7</sup> Paul R. Krugman and Maurice Obstfeld, *International Economics: Theory and Policy* (Reading, Massachusetts: Addison-Wesley, 1997), p.269.



limited period in order to realise a faster and sustainable economic growth. For instance, Masaki Shiratori<sup>8</sup> argues that a country's "competitive advantage should be understood in a dynamic context, not a static one as used in the neoclassical approach", and "to select a currently uncompetitive industry that is judged important for an economy's future and accelerate its development using policy instruments" is justifiable.<sup>9</sup>

The economic basis of the Japanese argument is that government intervention can be rationalized where there is a case of market failure, including the case of infant industry and economies of scale. In particular, most developing countries lack the basic conditions that enable market mechanisms to work properly. Of course, economists and policymakers in Washington understand that there are certain cases in which markets fail to achieve the optimum distribution of resources. However, they are still sceptical of the efficacy of large government involvement in the economy in general, and industrial policy in particular, pointing out the following problems. Firstly, market failures are hard to identify. Secondly, it is difficult to establish what policies would be appropriate to address market failures, even if they are identified. Under the circumstances, policy should be non-discriminatory, rather than sector-specific. Thirdly, governments can also fail. They can fail to pick possible successful industries. Also, there are risks that policies intended to promote development are subject to capture by special interests, and this sort of thing is more likely to happen in developing countries. Fourthly, it is difficult to assess the cost and benefit of government interventions.

In addition to economic theoretical grounds for industrial policy, there has been significant academic research to support Japan's assertion about the importance of the

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<sup>8</sup> Shiratori is a former high MOF official and Executive Director of the World Bank on behalf of the Japanese government.

<sup>9</sup> Masaki Shiratori, "Afterword to the Japanese Translation of the World Bank Report *the East Asian Miracle*," in Ohno and Ohno, eds., *Japanese Views*, p.81.

state and the role of industrial policy in the light of past economic development in Japan and other East Asian countries. This academic support has come mainly from people labelled as revisionists.<sup>10</sup> They share the view that Japan and some East Asian countries have achieved outstanding economic development in a way traditional economics cannot fully explain, and their economic performance is not merely the result of efficient resource allocation that comes from well-functioning market mechanisms. Much of the literature in this school analyses historically and empirically the policies implemented in these countries and explains carefully how these policies played significant roles in the countries' development.

The pioneering work of the revisionists is Chalmers Johnson's MITI and the Japanese Miracle, which "spawned a veritable cottage industry of books on the role of the state in the economy, and it framed both popular and scholarly debate."<sup>11</sup> In this book, Johnson argues that the key to understanding the Japanese economic miracle during the postwar period is the organisation and mechanism of the capitalist developmental state. According to Johnson, there are two different types of states in the capitalist world, namely the regulatory, or market-rational states, such as the US, and the developmental, or plan-rational states, like Japan. While the former type of state concerns itself with the forms and procedures of economic competition, the latter "has as its dominant feature precisely the setting of such substantive social and economic goals." He also argues that in the developmental state "the government will give greater precedence to industrial policy, that is, to a concern with the structure of domestic industry and with promoting the structure that enhances the nation's

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<sup>10</sup> According to Chalmers Johnson, who is regarded as the founder of this school, those who point out that Japan has a political economy different from that of the Anglo-American countries in terms of institutions, the role of the state, and the weight of economic nationalism are said to be part of this school. (Chalmers Johnson, Japan: Who Governs?: the Rise of the Developmental State (New York: W. W. Norton & Company, 1995), p. 12.)

<sup>11</sup> Meredith Woo-Cumings, "Introduction: Chalmers Johnson and the Politics of Nationalism and Development," in Meredith Woo-Cumings, ed., The Developmental State (Ithaca: Cornell University Press, 1999), p. 27.

international competitiveness."<sup>12</sup> Other characteristics of the developmental model, discussed in the book, are the existence of an elite bureaucracy committed to state objectives, a pilot agency like the MITI, a political system that enables the bureaucracy to operate effectively, and state institutional links with the private sector that work in a market-conforming way, such as administrative guidance.

Since this book was published in 1982, and as the remarkable development of East Asian economies received particular attention, several scholars have taken up this issue and have extended it to East Asian countries, advancing Johnson's arguments.<sup>13</sup> Among the extensive literature on the developmental state, of particularly importance is the book by Robert Wade, Governing the Market,<sup>14</sup> which analyses closely Taiwan's economic development. In this book, Wade proposed the 'governed market theory' to explain East Asian<sup>15</sup> economic success.<sup>16</sup> The theory contains a three-level explanation. First, the high performance of East Asian countries was the outcome of (1) very high levels of productive investment, making for fast transfer of newer technology into actual production; (2) more investment in certain key industries than would have occurred in the absence of government intervention; and (3) exposure of many industries to international competition, in foreign markets if not at home. Second, the government guides, or governs, market processes of resource allocation so as to produce different production and investment outcomes than would have occurred with the policies supported by neoclassical economics. Third, the government could successfully pursue these policies because of a particular set of political organisations,

<sup>12</sup> Johnson, MITI and the Japanese Miracle, p. 19.

<sup>13</sup> Johnson himself considers the application of the Japanese developmental model to East Asian success as follows. Although none of the cases is a clone of the Japanese model, the Japanese model has been successfully emulated by the four East Asian NICs, South Korea, Taiwan, Hong Kong and Singapore, but beyond those countries, the model does not exist. (Chalmers Johnson, "The Developmental State: Odyssey of a Concept," in Woo-Cumings, The Developmental State, p. 40. Also, see Chalmers Johnson, "Economic crisis in East Asia: the clash of capitalisms," Cambridge Journal of Economics 22 (1998), pp. 653-661.)

<sup>14</sup> Robert Wade, Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization (Princeton: Princeton University Press, 1990)

<sup>15</sup> By East Asia, Wade mainly means Japan, South Korea and Taiwan.

<sup>16</sup> Wade, Governing the Market, pp. 26-29.

namely authoritarian, as opposed to democratic, regimes, and the government's corporatist, as opposed to pluralist, relations, with capital and labour.<sup>17</sup>

## (2) The issue of the sequence and time span of liberalisation

In addition to the different views on the role of the government and the efficacy of industrial policy, another critical aspect of the divergence of opinions between Japan and the Washington Consensus is the speed and sequence of economic reforms and liberalisation in developing and transition economies, namely gradualism versus a big bang or a shock therapy approach. This issue arose in the 1990s in particular, when transforming the former centrally planned countries into market economies became a serious international agenda, but the argument also applies to economic development in general. As mentioned above, Japan does not dispute the efficacy of market mechanisms in the circumstances where a country has an economic system that can compete in the world economy. What makes Japan's approach different is the fact that it asks whether the same policies that apply to free markets should be implemented immediately in all countries irrespective of their stage of economic development. This leads to a methodological difference between Japan and the Washington Consensus, namely that, in the view of Japanese officials and academics in the aid policy community, there is too much deductive bias in neoclassical economics, in which one universal principal is pursued and applied to all countries in the same way.<sup>18</sup>

The prevailing view in the international financial institutions, supported by a number of neoclassical economists including Jeffrey Sachs, is that domestic and external

<sup>17</sup> Wade argues that while Korea and Taiwan are examples of authoritarian corporatism, Japan illustrates a type of corporatism with characteristics between democratic and authoritarian, or soft authoritarian. (Ibid., p.27.)

<sup>18</sup> This does not mean that the deductive method is entirely dismissed by the Japanese officials and academics, of course. Rather, some of the Japanese scholars propose the middle way between the deductive and inductive approaches. For instance, Kenichi Ohno argues that researchers must continuously go back and forth between the neoclassical method and more inductive area studies. (Kenichi Ohno, "Overview," pp 19-20.) Also see an interview with Kenichi Ohno in *Kokusai Kaitatsu Janaru* (1998.1), pp.32-35.

liberalisation and the introduction of rational price structures have to be implemented as soon as possible so that market mechanisms can begin to work properly and countries can become better off, although in the short term there could be some confusion in the economies. What is necessary in developing and transition economies is merely to comprehensively and promptly remove the impediments to the free operation of markets. The reforms in Russia and other former Soviet Union republics and Eastern European countries in the 1990s have been implemented based on this big bang approach. People that follow this approach assume various time spans, but not more than five years.<sup>19</sup> The big bang approach recommends that the following policies are implemented simultaneously: (1) macroeconomic stabilisation through the reduction of the financial deficit and the control of money supply, which is what the IMF usually demands of recipient countries as conditionality; (2) microeconomic liberalisation including price liberalisation, trade liberalisation, the establishment of currency convertibility, and the creation of new institutions that enable these policies to function properly; (3) the comprehensive privatisation of state industries.

On the other hand, Japan, backed by numerous Japanese scholars as well as some Western scholars, favours the gradualist approach, which stresses that liberalisation and economic reforms must be sequenced properly from a longer-term perspective than neoclassical economists assume, and should not be carried out all at once. In other words, domestic and external liberalisation must be implemented step by step, depending on a country's economic and social situation as well as the ability of its government, and there is not a universal rule on this process. This approach recommends that the government should retain a certain control of the economy until the new institutions that allow market economies to operate are firmly established and take root in the economy, thinking that if the government loses all control of the state

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<sup>19</sup> Kenichi Ohno and Izumi Ohno. *IMF to Sekaiginko [IMF and the World Bank]* (Tokyo: Nihon Hyoronsha, 1993), p.166.

sector at an early stage of transition, the social cost can be too costly and even intolerable. As far as trade and foreign exchange are concerned, the gradualist approach considers that there is a great risk that rapid liberalisation will cause domestic industries to collapse and lead to too much dominance by foreign firms. Therefore, external liberalisation should be carried out very cautiously, and the government should protect some industries by restricting trade and capital transactions for a certain period, until the domestic industry obtains a certain degree of competitiveness.<sup>20</sup>

This approach also opposes the immediate privatisation of state industry, arguing that hasty privatisation does not necessarily lead to efficient management, and could cause high unemployment. For instance, Yoshiaki Nishimura, evaluating Russian privatisation in the early 1990s, doubts that rapid privatisation has brought about desired results, pointing out various problems, such as huge transfers of wealth from the poor to the rich, insider control (control by managers and employees of the enterprise), which has preserved socialist inefficient management, a concentration of state assets by the *nomenclatura* (a privileged class) and the conduct of the privatisation process amid accusations of rampant corruption and fraud. He claims that a basic point has not been properly recognised in Russian privatisation, namely the point that "[p]rivatisation is a complicated process because ownership is not just a matter of economic activity but also closely related to people's consciousness which in turn depends on will and ideology."<sup>21</sup> Ohno comments that Nishimura's negative view about Russian privatisation is now widely shared in Japan and abroad.<sup>22</sup>

The gradualist stance of the Japanese government is clearly shown in a research paper of OECF on transition published in 1995 entitled "Transition Strategies and Economic

<sup>20</sup> This point has increasingly become recognised after the East Asian crisis.

<sup>21</sup> Yoshiaki Nishimura, "Russian Privatization: Progress Report no. 1," in Ohno and Ohno, eds., *Japanese Views*, p.259.

<sup>22</sup> Kenichi Ohno, "Overview," p.44.

Performance: Gradualism Revised." It examines the transition process in Russia, Poland, China and Vietnam, and concludes:

Because institutions conducive to market activities are slow to develop, it is vitally important to put institutional aspects at the center of the analysis. The 'big-bang' approach tends to pay too much attention to the need to shatter the old system, and insufficient attention to the dangers of institutional breakdown and self-reinforcing fiscal and macroeconomic collapse.

Greater attention needs to be paid to an 'optimal' order of reforms, in view of the interrelationship among macroeconomic stability, liberalisation and institution building. Immediate liberalisation and privatisation tend to result in a drastic fall in government revenues and impair price stability, unless an alternative public finance system is put in place; without the institution of a new social security system, privatisation would impose heavy social costs.

It appears [from the transition experience to date] that rapid 'privatisation' is neither necessary or sufficient for successful transition.<sup>23</sup>

Finally, it may be worth referring to Japan's view on the promotion of democratisation and human rights in developing countries in connection with aid policy, because it shows some difference between Japan and Western countries over the time-span to deal with this issue. Since the end of the Cold War, Western countries, particularly the US, have become very eager to promote democracy and human rights. On the other hand, Japan has been very cautious about this issue, as the historical legacy of colonising neighbouring countries has made it reluctant to force its values on others.<sup>24</sup>

<sup>23</sup> The Research Institute of Development Assistance (RIDA), OECF, "Transition Strategies and Economic Performance: Gradualism Revised." OECF Discussion Papers 8 (1995), pp.9-10.

<sup>24</sup> Yasuhiro Takeda, "Overcoming Japan-US Discord in Democracy Promotion Policies." (Former MOFA high official Hisahiko Okazaki's homepage, [www.glocomnet.or.jp/okazaki-inst/alliance-pro-eng/takeda.e.htm](http://www.glocomnet.or.jp/okazaki-inst/alliance-pro-eng/takeda.e.htm)).

However, it has begun to show its commitment to democracy and human rights. Japan's ODA Charter, approved by the Cabinet in June 1992 and considered the most important basic document concerning the country's ODA policies, reads: "[f]ull attention should be paid to efforts for promoting democratization and introduction of a market-oriented economy, and the situation regarding the securing of basic human rights and freedoms in the recipient country."<sup>25</sup>

However, Japan is still criticised for its passivity on this issue by Western countries, and, in fact, it does not necessarily side with Western countries in giving and suspending aid according to human rights criteria. Take the example of China. Although Japan had followed Western nations in sanctioning China after the Tiananmen incident in 1989, the Japanese government made every effort to prevent prolonging this situation. In the Group of Seven industrialised countries (G7) summit in July 1990, Japan pressured the other participating countries to soften the sanctions against China, and soon Japan resumed aid. In one way, Japan's activist policies can be explained as a consequence of China's economic significance to Japan and the Japanese policymakers' assessment that they did not want to risk bilateral relations. However, in addition to this economic consideration, there seems to be another factor that did not make Japan necessarily follow Western countries. A MOFA official commented that the issue of democratisation is important, but the cutting of aid does not necessarily advance democratisation, and thus it is more important to support China's open policies rather than isolate it.<sup>26</sup>

Another example that shows that Japan has not always sided with Western countries on the issue of democratisation is that of Japanese policy towards Myanmar. Japan first suspended aid to Myanmar in September 1988, when the military regime suppressed a

<sup>25</sup> See MOFA homepage, [www.mofa.go.jp/policy/oda/summary/1999/ref1.html](http://www.mofa.go.jp/policy/oda/summary/1999/ref1.html)

<sup>26</sup> Cited in Juichi Inada, "Nihon no enjo gaiko [Japan's aid diplomacy]," in Atsushi Kusano and Tetsuya Umemoto, eds., *Gendai Nihon Gaiko no Bunseki [analysis of contemporary Japanese diplomacy]* (Tokyo, Tokyo University Press, 1995), p.161.



democratisation movement, because of the strong international criticism against the military government. However, in February 1989 it recognised the military authority and resumed aid for continuing projects as well as humanitarian aid. Also, despite that regime's violation of democracy and human rights in the 1990s, Japan tried to soften a resolution by the Commission on Human Rights and the Third Committee of the UN General Assembly.<sup>27</sup> In a sense, this disharmony between Japan and Western countries is related to its historical relations with its neighbours, which means that Japan cannot be seen to be very harsh in the region. It is interesting to note that Japan joined other Asian nations and signed the Bangkok Declaration at the UN-sponsored Asia Regional Preparatory Meeting for the World Conference on Human Rights in March 1993, attended by forty Asian countries, including Indonesia, China, Malaysia and Singapore. Arase argues that the key points of the Declaration were that developed countries should not tie aid to human rights, and should respect the sovereign right of states to manage human rights within their borders, and Japan signed it after being criticised by some Asian governments for being too Western with regard to its stance on human rights in ODA policy.<sup>28</sup>

It also cannot be denied that there were considerations related to Japan's direct economic interests at play, as shown in China's case. With respect to the resumption of aid to Myanmar, Orr points out that there were pressures from some in the Japanese business community through LDP members. He also notes the MOF and the MITI's concerns over issues falling under their bureaucratic purview. Namely, MOF officials wondered whether stopping aid would result in financial chaos, forcing Rangoon to default on previous yen loans from Japan, while the MITI was worried about the effects on future business in Myanmar. Orr argues that although the MOFA was concerned about Japan's international image if it did not follow other donors, these

<sup>27</sup> David Arase, "Japanese Policy Towards Democracy and Human Rights in Asia," *Asian Survey* 33, 10 (1993), p.946.

<sup>28</sup> *Ibid.*, pp.939-940.

combined effects were simply too much for the ministry to ignore.<sup>29</sup>

Furthermore and especially relevant to the discussions in this section, this discord can also be attributed to the difference of views between numerous officials and influential scholars in Japan and their Western counterparts over how to promote democracy and human rights. Inada argues that the thinking of Japanese officials and scholars can be summarised as follows: democracy has universal value, which many countries share; however, the way towards a democratic system varies, according to the situation of each country, and democratisation should not be imposed uniformly and hastily; in some developing countries, particularly in East Asia, economic stability comes first, and then stability leads to democratisation. Inada further argues that Japan's approach is to encourage indirectly the democratisation of developing countries, and it is unlike the American approach, which imposes directly the values of democracy onto those nations.<sup>30</sup> Likewise, Yasuhiro Takeda points out that Japanese officials and intellectuals believe that democratic transition in developing countries would be better affected through changes in economic and social structures, and that democratisation can be promoted indirectly through economic development.<sup>31</sup> Related to this point, people in the Japanese aid community consider that an authoritarian regime is not necessarily evil, and although not ideal, it can be regarded as a transitional regime for the purpose of rapid industrialisation.<sup>32</sup>

#### The development of the arguments between Japan and the Washington Consensus

The previous section has discussed the divergence of views on the role of states as well as the sequence and time span in policy implementation between Japan and the Washington Consensus. The discussion now turns to the point of how Japan has

<sup>29</sup> Orr, *The Emergence of Japan's Foreign Aid Power*, pp.84-86.

<sup>30</sup> Inada, "Nihon no enjo gaiko," pp.169-170.

<sup>31</sup> Takeda, "Overcoming Japan-US Discord," p.4.

<sup>32</sup> Kenichi Ohno, "Overview," pp.32-34.

articulated its policy stance since the late 1980s.

Neoclassical economics has provided the mainstream approach to the study of economic development since the 1970s, when it became the policy basis of the World Bank and the IMF. The hegemony of the neoclassical economics was secured against the background that state-centred development in the 1950s and 1960s was believed to have revealed problems of government failure and resulted in economic difficulties, such as the accumulated debt problem in the 1970s and 1980s in many developing countries, with the exception of some East Asian countries, who still enjoyed economic success.<sup>33</sup> Neoclassical economics gained further momentum during the Reagan administration in the US and the Thatcher administration in the United Kingdom, both of which were ideologically devoted to the neoclassical orthodoxy. In the 1980s, the World Bank and the IMF began to demand of developing countries medium-term microeconomic policy that was more concerned with the countries' economic structures, supplementing traditional policy with macroeconomic stabilisation. This came in the form of the structural adjustment policy, which typically included comprehensive reforms of institutions, liberalisation and privatisation, and was attached by the IMF and the World Bank as a conditionality to their loans. Ishikawa argues that structural adjustment policy is an attempt to replace rapidly the dirigisme that characterises the economic regime of most developing countries with a market economy.<sup>34</sup>

Despite the fact that Japan gradually increased the volume of ODA throughout the 1970s and 1980s, having become the largest aid donor in the world in 1989 for the first time and having substantially increased its financial contributions to international organisations including the World Bank, Japan did not articulate its development philosophy and merely contributed funds during this period. This silence of Japan was

<sup>33</sup> Shigeru Ishikawa, "Kozochosei [structural adjustment]," *Asia Keizai* 35, 11 (1994), pp.3-6.

<sup>34</sup> *Ibid.*, p.2.

duc. Yasutomo points out, to the Japanese officials' lack of knowledge about development processes.<sup>35</sup>

However, some MOF officials began to raise questions about the prevailing orthodoxy in international organisations, particularly the World Bank, and to express openly their disagreement with the orthodoxy, as the Bank's development approach began to clash with, or contradict, the Japanese aid policies in the late 1980s. Isamu Kubota<sup>36</sup> states that the debate on the right development approach between Japan and the World Bank was triggered by a divergence of opinions concerning Japan's subsidised policy-directed loans to developing countries.<sup>37</sup> Specifically, the World Bank criticised Japan's policy to give developing countries two-step loans. These are aid loans that are extended to a financial institution of a developing country with low interest rates for the purpose of being passed on to specific, or targeted, sectors in the country at lower interest than ongoing commercial interest rates.

This issue surfaced over the ASEAN-Japan Development Fund,<sup>38</sup> which was established in 1987 by the Japanese government, with the aim of extending two-step loans to ASEAN countries to promote the development of the private sector in those countries and to help finance joint ventures in East Asia. The plan was not successful largely because Japan failed to provide subsidised loans in the face of opposition from the World Bank and the IMF. The World Bank insisted that credit should be extended at market or nonsubsidised rates, for the following reasons: (1) the system that treats specific sectors favourably will distort market mechanisms in financial markets; (2) in many developing countries, governments lack the institutional capability to distribute

<sup>35</sup> Yasutomo, *The New Multilateralism*, p. 75.

<sup>36</sup> Kubota is a former high MOF official and engaged in the discussion about development philosophy as a managing director in the OECF in the early 1990s.

<sup>37</sup> Isamu Kubota, "Higashi ajia no kiseki [East Asian miracle]," *Fainansu* (1993.12 / 1994.1)

<sup>38</sup> Doner, "Japan in East Asia," p.226, and Albert Fishlow and Catherine Gwin, "Overview: Lessons from the East Asian Experience," in Robert Wade et al., *Miracle or Design? Lessons from the East Asian Miracle* (Washington, DC: Overseas Development Council, 1994), p.3.

funds fairly within the countries; and (3) in the case of subsidised loans, these problems become more serious.<sup>39</sup> Shiratori writes that these arguments of the World Bank were hardly acceptable to Japanese officials, for practical reasons, as two-step loans were one of the main vehicles for Japan's ODA loans, as well as in light of Japan's postwar experience of economic development.<sup>40</sup> Japan, who basically believes that financial policies should be subordinated to a broader industrial strategy, insisted that: (1) aid unavoidably distorts market mechanisms in developing countries, and it is contradictory that the World Bank only criticises the distortion of financial markets; and (2) institutional incapability of governments for distributing funds properly supports the necessity for their institutional reforms, but it cannot be a basis for denying subsidised loans.<sup>41</sup>

The MOF, along with numerous Japanese academics, also became very sceptical about the effectiveness of the World Bank's structural adjustment policies and their universal application to developing economies, at the same time that Japan considerably increased the portion of co-financing with the World Bank in its total ODA in the late 1980s. Yasutomo notes that as Japanese officials studied the Bank's approach to structural adjustment loans as well as the Japanese and East Asian development in the past, they found contradictions: Japan and East Asian countries have achieved marked economic development in a different way from what the World Bank instructed developing countries to do, while in Latin American countries, who had followed the neoclassical orthodoxy, the crisis of accumulated debt intensified.<sup>42</sup> Japan did not completely deny the effectiveness of structural adjustment loans, but it opposed the universal application of the same set of conditionalities to every country and insisted that loan and aid conditionality should take into account each country's development stage and economic condition in a long-term framework. These divergences over two-

<sup>39</sup> Takashi Shiraishi, "Japan and Southeast Asia," p.191.

<sup>40</sup> Shiratori, "Afterword," p.77.

<sup>41</sup> Ibid.

<sup>42</sup> Yasutomo, *The New Multilateralism*, p.77

step loans and structural adjustment loans led to a serious debate between Japan and the World Bank concerning development philosophy in the 1990s.

The Japanese government openly questioned the World Bank's policies for the first time in an OECF report released in October 1991 entitled "Issues Related to the World Bank's Approach to Structural Adjustment."<sup>43</sup> The report criticises the Bank's overemphasis on market mechanisms and macroeconomic issues in structural adjustment loans, arguing that: (1) structural adjustments are not enough to generate sustainable growth, and there should be measures aiming directly at promoting investments; (2) trade liberalisation must be implemented cautiously from a long-term viewpoint, and it is too optimistic to expect that industries capable of sustaining the economy of the next generation will come up automatically through the activities of the private sector, and some measures for fostering industry are required; (3) the significance of lending at subsidised interest rates, specifically two-step loans, to financial institutions for developmental projects should not be disregarded; and (4) the World Bank tries to apply the same policies to every country universally, but the various conditions of each country should be taken into account.

Since publishing the report, Japan has become increasingly more assertive about its development philosophy as well as its view on aid policy. At the annual IMF/World Bank meeting in the same month, Yasushi Mieno, the then Governor of the Bank of Japan, made the following statement:

Experience in Asia has shown that although development strategies require a healthy respect of the market mechanism, the role of government cannot be forgotten. I would like to see the World Bank and the IMF take the lead in a wide-ranging study that would define the theoretical underpinnings of this

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<sup>43</sup> OECF, "Issues Related to the World Bank's Approach to Structural Adjustment: Proposal from a Major Partner." OECF Occasional Paper 1 (1991).

approach and clarify the areas in which it can be successfully applied to other parts of the globe.<sup>44</sup>

Also, it was observed that there was growing assertiveness about Japan's development approach among Japanese officials at the World Bank, including Japan's executive director and his deputy.<sup>45</sup> It is also reported that, in a symposium sponsored by the OECF in early 1992, the then Vice President of the World Bank was strongly challenged by several Japanese panellists who stressed the important role of governments in the development of Japan and East Asian countries.<sup>46</sup> An OECF official was reported to comment that what fuelled this assertiveness was the increasing frustration with the World Bank economists' lack of attention to the role of the state.<sup>47</sup>

On the other hand, since the beginning of the 1990s the World Bank has somewhat changed its stance and has begun to pay more attention to the role of the state in development. The 1991 World Development Report (WDR) proposed the market-friendly approach, which the World Bank itself later described as a middle ground between the neoclassical economics and the revisionist views. The report stresses that development is associated with the proper role of government, which is larger than merely standing in for markets if they fail to work well, and markets must be complemented by government policies such as investing in people, building better social and regulatory systems, and providing stable macroeconomic conditions. The report considers that the role of the government should be wider than neoclassical economics would allow, but it holds a negative view about government interventions that distort the resource allocation by market mechanisms.

<sup>44</sup> Cited in Shiratori, "Afterword", p.78. Shiratori writes that the MOF offered to finance this sort of study, which led to the launch of the study on the East Asian miracle.

<sup>45</sup> *Far Eastern Economic Review*, March 12, 1992, and Shiratori, "Afterword", p.78.

<sup>46</sup> *The Nikkei Weekly*, March 21, 1992.

<sup>47</sup> *Ibid.*

Meanwhile, Japan convinced the World Bank to conduct a major study on the role of the state and industrial policy in the past development of Japan and East Asia.<sup>48</sup> Although Japan appreciated the 1991 WDR in the sense that the World Bank had begun to turn its attention to the importance of the state in development rather than just preaching the value of markets, it was still dissatisfied with the Bank's under-evaluation of what the governments had done in Japan and some East Asian countries. The study, which was mainly sponsored by Japan, was conducted for two years by World Bank staff and some outside experts, and the report entitled The East Asian Miracle: Economic Growth and Public Policy<sup>49</sup> was published in 1993.

The report basically takes the same middle position, as the 1991 WDR did, between neoclassical orthodoxy and the Japanese approach. The study grappled squarely with the issue of the role of the state in economic development, stating that governments had played an important role in Japan and other East Asian countries. It particularly notes that their policies for getting the fundamentals right had contributed to the rapid growth, while admitting that some government interventions beyond getting the fundamentals right, particularly in Japan, Taiwan and South Korea, were effective. It says that in these countries "government interventions resulted in higher and more equal growth than otherwise would have occurred."<sup>50</sup> However, the report gave a negative view about the effectiveness of industrial policy in general, which had been the main point of controversy between Japan and the World Bank since the early 1990s. It argues that, despite the achievement in these countries, "the prerequisites for success were so rigorous that policymakers seeking to follow similar paths in other developing

<sup>48</sup> Masaki Shiratori, "Sekai ginko repoto higasshi ajia no kiseki wo do yomuka [How do we read the World Bank Report the East Asian Miracle?]," *ESP* (1994.2), p. 70. Johnson notes that Japan forced the World Bank to write the study as a condition for further Japanese funding. (Johnson, "The Developmental State," p.35.)

<sup>49</sup> The World Bank, The East Asian Miracle: Economic Growth and Public Policy (New York: Oxford University Press, 1993).

<sup>50</sup> *Ibid.*, p.6.



economies have often met with failure."<sup>51</sup> The report also stresses that the use of industrial policy to achieve more rapid productivity growth by altering the industrial structure was generally not successful even in these three countries, and industrial growth "tended to be market-conforming, and productivity change was not significantly higher in promoted sectors."<sup>52</sup>

Although Japan was not completely satisfied with the arguments of the report, as it never went outside the confines of neoclassical economics, it welcomed the report to a certain extent. In fact, Japanese officials were not surprised at the outcome of the report, given the dominance of neoclassical economics in the World Bank's management, staff and organisational culture.<sup>53</sup> Kubota argues that the report is not perfect from the Japanese viewpoint, but nevertheless he finds substantial changes from the previous stance of the World Bank.<sup>54</sup> He also considers that there is not one absolute approach to development, and thus Japan should keep pressuring the World Bank from the outside to make the bank officials consider policies more flexibly.<sup>55</sup> In short, it seems that what Japan aimed at through sponsoring the East-Asian-Miracle report was not to upset the established orthodoxy completely. It was more modest. Japan wanted its development experiences and philosophy to be more widely acknowledged and tried to restrain the establishment from relentlessly and narrowly pursuing its emphasis on market mechanisms. In this sense, Japan's attempt was fairly successful as it could at least put its development approach on the agenda.

The 1997 WDR, "The State in a Changing World," goes further than the East Asian Miracle, and pays more attention to the role of the state. It particularly focuses on the governance issue. The report stresses that, without an effective state, development,

<sup>51</sup> Ibid., P.6.

<sup>52</sup> Ibid., p354.

<sup>53</sup> A comment by a Japanese official cited in Yasutomo, The New Multilateralism, p.79.

<sup>54</sup> Kubota, "Higashi ajia."

<sup>55</sup> Ibid.

both economic and social, is impossible. It classifies the functions of the state into three categories, minimal, intermediate and activist, and suggests matching the state's role to its capability; namely countries with low state capability need to focus first on basic functions, the provision of pure public goods, and those with strong capability can take on more activist functions. According to the report, the activist functions involve industrial policy, but it is careful to say that 'high-intensity government support' such as coordinating investment (by the public and private sector) or picking potentially successful industries must be limited to countries with unusually strong institutional capability. Instead, the report suggests more flexibility of 'light-touch initiatives' such as government initiatives to private-to-private networks. The report is significant in that, although it does not recommend implementing active interventionist policies, it hints that they cannot be dismissed completely. The comments of James Wolfenson, President of the World Bank, following the publication of the report, are noteworthy: he states that people learned that many states were not able to implement what they promised, and thus they began to believe in the minimalist state. However, such a state is not harmful, but neither is it effective.<sup>56</sup>

This change in the attitude of the World Bank can be attributed to various factors. It is widely recognised that the change in attitude, particularly the 1997 WDR, is associated with Joseph Stiglitz's taking on the post of Chief Economist of the World Bank from February 1997 to December 1999. He is a leading academic on the economics of the Public Sector and has written extensively on the role of the government. He is also a leading critic of the Washington Consensus, and exposed the limitations of neoclassical economics. Also, Ohno comments that it is not clear how much Japan's voice has contributed to such a change, but perhaps it has had some impact, in addition to other factors such as Wolfenson's personal initiative, the voice of non-governmental organisations (NGO), and the difficult economic situation in transition countries after

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<sup>56</sup> See World Bank Tokyo Office homepage, [www.worldbank.or.jp/11press/update/P71.html](http://www.worldbank.or.jp/11press/update/P71.html).

implementing neoclassical reforms.<sup>57</sup>

These changes in the stance of the World Bank indicate that in the 1990s the World Bank increasingly began to adopt a philosophy different from the line of the IMF, which remained confined to neoclassical orthodoxy, although their disagreements and confrontations are not necessarily a new issue.<sup>58</sup> It could also be argued that in a sense the World Bank's position moved closer to that of the Japanese, and became positioned somewhere between the IMF and Japan. Furthermore, as argued above, given the mood swing from the Washington Consensus to the Post-Washington Consensus after the East Asian financial crisis, the difference between Japan and Washington has somewhat narrowed.

However, there still seems to be a gap between their views, and it is not certain whether the gap will narrow or widen in either the long or short term. It is arguable to what extent Stiglitz's thinking has been accepted within the World Bank, particularly after he left the institution. Izumi Ohno is quite sceptical about this point. In her book, she takes for discussion a World Bank report entitled East Asia: The Road to Recovery, published in September 1998, and argues that overall the report shows a change of course away from the Stiglitz line in the World Bank: the policy proposals of the report for the East Asian economy are inspired by the Anglo-American approach.<sup>59</sup> She also stresses that, although under Wolfensohn, the World Bank has pursued a new approach, in which non-economic factors are incorporated into its policy considerations in addition to economic factors, the latter having been the only consideration of neoclassical orthodoxy, the approach is still based on Western thought: namely, the new line of the World Bank is not in defiance of the Washington Consensus, but it

<sup>57</sup> Interview, April 3, 2001.

<sup>58</sup> See, for instance, Ryoichi Mohri, Globalization to IMF/Sekai Ginko [globalisation and the IMF/ the World Bank] (Tokyo: Otsuki Shoten, 2001), pp. 56-61.

<sup>59</sup> Izumi Ohno, Sekai Ginko: Kaihatsu Enio Senryaku no Henkaku [the World Bank: the change of its development assistance strategy] (Tokyo, NTT Shuppan, 2000), p. 199-203.

extends the arguments of the Washington Consensus to other aspects like non-economic factors, while keeping its basic philosophy.<sup>60</sup> Likewise, Jayasuriya and Rosser argue that

It would be an error to see policy frameworks emerging from the new consensus as a departure from the earlier emphasis on open markets, deregulation and less government. Rather, the new consensus should be understood as a political counterpart to the earlier economic emphasis on structural reform. Indeed, it may be useful to think of these new policy frameworks as attempts to institutionally 'bed down' the structural reforms championed by multilateral policy in the last two decades.<sup>61</sup>

Furthermore, methodologically the Post-Washington Consensus has not left behind the Washington consensus. Kenichi Ohno points out that Washington's belief that there is one best practice for development to be adopted for every country has not changed throughout the 1990s, and Washington still tries to apply the same policies to every country uniformly by using a checklist or a matrix.<sup>62</sup> Higgott also notes that the Post-Washington Consensus is no less universalizing, and attempts to be no less homogenizing, than the Washington Consensus, and its prescriptions still demonstrate 'one-size-fits-all' formula.<sup>63</sup>

Finally, it is worth referring to the silence of other figures such as MITI and MOFA officials. Despite the fact that the MITI was without doubt a central institution in the past Japanese industrial policy,<sup>64</sup> and the fact that the MITI and the MOFA as well as the Economic Planning Agency (EPA) have been involved in aid policymaking

<sup>60</sup> Ibid., pp.212-215.

<sup>61</sup> Jayasuriya and Rosser, "Economic Orthodoxy," p.15.

<sup>62</sup> Interview, April 3, 2001.

<sup>63</sup> Higgott, "Contested Globalization," p.146.

<sup>64</sup> Ryutaro Komiya, "Introduction," in Ryutaro Komiya, Masahiro Okuno, and Kotaro Suzumura eds., *Industrial Policy of Japan* (San Diego: Academic Press Japan, 1988), and Johnson, *MITI and the Japanese Miracle*.

processes.<sup>65</sup> they have not actually joined the MOF's assertive policies towards the Washington Consensus concerning development and transition. This is partly because the relations with the IMF and the World Bank are within the jurisdiction of the MOF. Other ministries conducted some research about these subjects within their organisations, but they did not have any means to show their views to these international organisations.<sup>66</sup> This is also to do with the general nature of the MITI as an economic ministry, whose prime interest is the direct economic benefit of Japan, and that of the MOFA, whose priority is to maintain cordial relations with the US. As Orr argues, the MITI tends to determine the extent to which aid will help or hinder Japan's overseas market and domestic industry,<sup>67</sup> and it does not get ideologically involved. Also, Green notes that the MITI and the MOFA were not included in the MOF's ideological campaign, as they were worried about the impact of MOF officials' aggressiveness on bilateral trade and security relations respectively.<sup>68</sup> In addition, Ohno comments that few MOFA officials have expertise in international finance and economic development, and thus do not seek to engage with the international financial organisations.<sup>69</sup> As far as the EAP is concerned, it has convened several workshops and conferences, attended by prominent Japanese scholars. However, the agency does not have enough influence to make its views known even within Japan, and its reports, some of which were written in English, did not have any impact, either in Japan or abroad.<sup>70</sup> In addition to these factors, Ohno points out that personal initiatives were also important. In the early 1990s, there were powerful advocates of the Japanese approach, such as Masaki Shiratori and Isamu Kubota in the MOF, and Yasutami Shimomura<sup>71</sup> concerning OECF reports, but there were no similar voices in other

<sup>65</sup> Orr, *The Emergence of Japan's Foreign Aid Power*, pp.31-51.

<sup>66</sup> Interview with Kenichi Ohno, April 3, 2001.

<sup>67</sup> Orr, *The Emergence of Japan's Foreign Aid Power*, pp.36-39.

<sup>68</sup> Green, *Japan's Reluctant Realism*, p.238.

<sup>69</sup> Interview with Kenichi Ohno, April 3, 2001.

<sup>70</sup> Ibid.

<sup>71</sup> Shimomura is the then Director of the OECF's Economic Department.

institutions.<sup>72</sup> These factors explain the silence of others except the MOF and the OECF, although they have basically shared the same view with the MOF and the OECF and have conducted some internal research on development.

#### **The divergence of opinion on the causes of the East Asian financial crisis in 1997**

It has been argued so far that, although it shares with the Washington Consensus institutions the goal of promoting economic development, Japan has quite different opinions about how economic development and systemic transition can be achieved, and has consistently articulated its views openly since the early 1990s. It could also be argued that, although MOF officials were the main actors in the debates with Washington, these views are, on the whole, shared among Japanese intellectual and policymaking circles.

This led to a divergence of opinions between Japan and Washington, particularly the IMF and US Treasury,<sup>73</sup> about the causes of the East Asian financial crisis and the necessary measures for easing the crisis, when the incident took place and spread beyond East Asia in 1997 and 1998. The following discussion relates their respective views on the crisis to their ideological differences presented above by drawing a broad picture of their stances on the crisis.<sup>74</sup>

The IMF and the US basically regarded the crisis as originating in structural problems in the affected countries, stressing the problems of the financial sectors and the inappropriate relationships between the public and private sectors. The IMF explains, in its published document concerning 'The IMF's Response to the Asian Crisis', issued

<sup>72</sup> Interview with Kenichi Ohno, April 3, 2001.

<sup>73</sup> The World Bank took a quite different stance on the crisis from the IMF. See East Asia: Road to Recovery. In particular, Stiglitz aggressively criticised IMF policies.

<sup>74</sup> For a more comprehensive comparison between Japan and Washington concerning views on the crisis, see, for instance, Kenji Aramaki, Ajia Tsukakiki to IMF [the East Asian currency crisis and the IMF] (Tokyo: Nihon Keizai Hyoronsha, 1999).

in January 1999,<sup>75</sup> its view on the causes of the crisis as follows. The primary reason for the crisis is not macroeconomic imbalances, but weaknesses in financial systems and, to a lesser extent, governance:

A combination of inadequate financial sector supervision, poor assessment and management of financial risk, and the maintenance of relatively fixed exchange rates led banks and corporations to borrow large amounts of international capital, much of it short-term, denominated in foreign currency, and unhedged. As time went on, this inflow of foreign capital tended to be used to finance poorer-quality investments.

Although private sector expenditure and financing decisions led to the crisis, it was made worse by governance issues, notably government involvement in the private sector and lack of transparency in corporate and fiscal accounting and the provision of financial and economic data.

Therefore, the core of the policies adopted by the IMF was, together with austerity macroeconomic policies, the 'forceful, far-reaching structural reforms', which involve the comprehensive reform of financial systems and measures to address the governance issues, namely "the measures designed to improve the efficacy of markets, break the close links between business and governments, and ensure that the integration of the national economy with international financial markets is properly segmented." The US government in essence shared these views.<sup>76</sup>

On the other hand, the Japanese officials regarded the crisis as a liquidity problem, or a

<sup>75</sup> See IMF homepage, [www.imf.org/external/np/exr/facts.asia.htm](http://www.imf.org/external/np/exr/facts.asia.htm). These views of the IMF were slightly revised in the updated report issued in June 2000. ([www.imf.org/external/np/exr/ib/2000/062300.htm](http://www.imf.org/external/np/exr/ib/2000/062300.htm)) The new version argues that the crisis was caused partly by macroeconomic imbalances, and does not emphasise the governance problem in affected countries as a source of the crisis; it simply mentions that implicit government guarantees remained pervasive in an environment of large private capital inflow and rapid domestic credit expansion.

<sup>76</sup> See Aramaki, *Ajia Tsukakiki to IMF*, pp.84-86.

sort of panic, which could be ascribed to some faults inherent in the global financial markets. They accepted that there were some problems in the affected countries particularly in the financial sectors, and also that their real economies were declining somewhat, partly due to the pegging of their currencies to the dollar, and partly to the rise of China's economic competitiveness. However, they thought that it was totally wrong to blame only the economic systems of the affected countries for causing the crisis, arguing that these countries had achieved remarkable development, praised as the East Asian miracle, under the same systems. Instead, the Japanese officials insisted that what has to be considered is the present state of the governance of international financial markets. A speech by Japanese Finance Minister Kiichi Miyazawa in December 1998 reflects well these arguments:

The Asian crisis revealed the weakness of the financial sectors and the lack of proper financial sector supervision in these countries... Still the sense of crisis did not seem to be shared evenly throughout the world: I suppose that this was because some observers attributed the Asian crises to specific deficiencies in the economic management of the Asian countries, including seemingly opaque and improper relationships between governments and businesses.

However, when turmoil also took place in Russia and Brazil this year, it became very clear that crises such as those experienced in Asia are more general phenomena. One cannot help but realise that these successive crises stemmed not only from specific problems in particular economies, but also from general problems inherent in today's global economic system.<sup>77</sup>

The Subcommittee on Asian Financial and Capital Markets under *Gaitame Shingikai* (Committee on Foreign Exchange and Other Transactions), established in the MOF,

<sup>77</sup> Speech at the Foreign Correspondents Club of Japan, December 15, 1998. (MOF homepage. [www.mof.go.jp/english/if/e1e057.htm](http://www.mof.go.jp/english/if/e1e057.htm))



also discussed the issue. According to its report, although there were some problems such as macroeconomic imbalances particularly in Thailand, the spread of the Thai crisis to the neighbouring countries was due to the contagion effect, which was generated by a radical shift in market perceptions. In the case of South Korea, various economic problems had surfaced well in advance to the crisis, which led to the situation that foreign creditors who had become increasingly sensitive to their investments due to the crises in South East Asia rapidly withdrew their funds.<sup>78</sup> Also, the then Japanese Vice Finance Minister Eisuke Sakakibara argues that the crisis was caused not by the structures peculiar to East Asia, but by 'global capitalism', and that could happen anywhere in the world.<sup>79</sup>

It must be noticed that with the spread of the crisis to Russia and Latin America, attributing the crisis only to the domestic problems of the affected countries in East Asia has decreased, and the systemic defects of global financial markets have become more widely recognised. This has led to a 'mood swing' towards the Post-Washington Consensus. It is important to note that G7 Finance Ministers discussed the issue of the international financial architecture and agreed on the necessity to reform and strengthen it. Haruhiko Kuroda, Vice Minister of the Japanese MOF, argues that the meeting was significant particularly in the following aspects: (1) the Ministers agreed that capital account liberalisation in developing countries should be carried out in a careful and well-sequenced manner, accompanied by measures to support a sound and well-regulated financial sector and by a consistent macroeconomic policy framework; (2) they recognised the importance of improving transparency by all market participants, including the disclosure of the exposure to hedge funds; (3) they agreed that the international financial community needs to set out a framework for involving

<sup>78</sup> See MOF homepage, [www.mof.go.jp/english/tosin/ela703.htm](http://www.mof.go.jp/english/tosin/ela703.htm)

<sup>79</sup> Eisuke Sakakibara, *Kokusai Kinyu no Genba* [The scene of international finance] (Tokyo: PHP Shinsho, 1998), and Sakakibara, *Nihon to Sekai*. Also, see the literature of other senior MOF officials. For instance, Haruhiko Kuroda, "Atarashii kokusai kinyu shisutemu no kochiku ni mukete [towards the building of a new international financial system]," *Yomiuri Shinbun*, November 18, 1999.

the private sector in the resolution of crises, stating that private creditors should not believe that their credits are protected by the IMF, and that in some cases it is likely that net debt payments to the private sector are reduced. Kuroda stresses that it is particularly surprising that the champions of the market economy, the US and the United Kingdom, agreed on these points, which are completely different from G7's traditional stance.<sup>80</sup>

Returning to the divergence of opinions between Japan and the Washington Consensus concerning the causes of the crisis, this difference is to a large extent a reflection of their arguments on development and transition that was discussed in the early part of this chapter. It is no wonder that the IMF and the US held the views on the crisis outlined above. As the efficacy of markets mechanisms is their basic assumption, it seems to them that what was wrong could not have had anything to do with the global financial markets, but something that had hindered the markets from working effectively in the affected countries. Therefore, such hindrances to the operation of market mechanisms, specifically statism, 'crony capitalism' and mercantilism, had to be blamed and hence the call to have them removed from the economies immediately. To Washington, the crisis looked as though it was justifying its philosophy, marking the triumph of its philosophy over other capitalist models after having defeated the Soviet style planned economy, and was a window of opportunity to dismantle what it saw as obstacles to spreading the free market systems to the East Asian economies. Furthermore, some scholars point out that their ideological interest for such a policy was reinforced by economic considerations: namely, the crisis was not only significant ideologically, but was a great opportunity to promote the US national interest by removing the barriers to US businesses expanding in the East Asian markets.<sup>81</sup>

<sup>80</sup> Kuroda, "Atarashii kokusai kinyu shisutemu."

<sup>81</sup> See Robert Wade and Frank Veneroso, "Asian Financial Crisis: the Undergoing Risk of the IMF's Asia Package," Working Paper 128 (February 10, 1998), Russell Sage Foundation, and

On the other hand, Washington's views on the causes of the crisis and its subsequent policies, which completely deny what Japanese officials and intellectuals had considered to be important for developing and transition economies, were totally unacceptable to Japan.<sup>82</sup> It is true that the East Asian economies are not a copy of the Japanese economic system or its developmental model, and on the contrary their economic and social systems are quite diverse.<sup>83</sup> However, the Japanese officials argue that these countries have achieved remarkable economic development by following some of the core elements of the Japanese experience in the past. In most of the countries, the governments played an important and leading role in economic development, which was much larger than neoclassical economics recommends as the appropriate role of government, and selectively promoted specific sectors. To Japanese officials and academics, these are the essential parts of the success of East Asian development, and what the IMF was doing was trying to convert their economic systems to the American framework based on market mechanisms. Higgott puts it as follows: "what has been challenged in the crisis of the East Asian NIES in the late twentieth century is the very model on which they have built their success. It should be seen not only as an economic crisis, but as an 'ideas battle' or an ideological battle."<sup>84</sup>

To Japan the crisis was, in a sense, caused by Washington's over-emphasis on market mechanisms, namely the policies to encourage developing countries to liberalise their financial and capital markets. This argument of Japan may have the benefit of hindsight. Japanese officials and academics did not articulate their opinions on this issue before the crisis, largely because they failed to give much thought to the issue of

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Jagdish Bhagwati, "The Capital Myth: the Difference between Trade in Widgets and Dollars," *Foreign Affairs* 77-3 (1998), pp. 7-12.

<sup>82</sup> Japan's criticism of the IMF policies was backed by some prominent Western scholars, such as Jeffrey Sachs and Martin Feldstein.

<sup>83</sup> Linda Weiss, "Developmental states in transition: adapting, dismantling, innovating, not normalizing," *The Pacific Review* 13-1 (2000), pp.21-55.

<sup>84</sup> Richard Higgott, "The International Relations of the Asian Economic Crisis: a Study in the Politics of Resentment," paper presented at the Third Pan European International Relations Conference and Joint Meeting with the International Studies Association, Vienna, September 16-19, 1998, p.10.

financial liberalisation. However, the crisis crystallised their views on this issue, and now they strongly advocate that the liberalisation of financial and capital markets in developing countries must be dealt with very cautiously, as sometimes it could be harmful for their economic stability. For instance, Ohno argues that financial liberalisation should not be demanded uniformly from developed and developing countries, and it should be considered according to their level of development.<sup>85</sup> In fact, Japan apparently supported Malaysia's capital controls in the midst of the crisis. Despite the IMF's reluctance, Japan included Malaysia in the list of countries to be supported under the New Miyazawa Initiative, as will be discussed in the next chapter.

With respect to the IMF's policies, Japanese officials and academics regarded them as an attempt to impose market mechanisms hastily and rigidly and with little consideration of each country's situation, and to dismantle what had been vital for the development of East Asian countries. In particular, as discussed in the next chapter, Japan's discontent grew as the IMF's policies became more far-reaching and comprehensive with the spread of the crisis, and went far beyond a sensible line as far as the Japanese were concerned. Japan's stance on this point is as follows: East Asian countries have to address the problems that they are facing, which were revealed by the occurrence of the crisis, and also they have to deal with the liberalisation of their economic systems in the long term, including trade and financial liberalisation. However, this must be done step by step, according to the economic situation and the level of development, and in certain areas, government involvement is still justified in these countries. At the very least, it is not a matter to be addressed in the midst of the crisis.

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<sup>85</sup> Kenichi Ohno, "Ajia kiki no keizaigaku [Economics of the East Asian Crisis]," Shukan Daiamondo April 25, 1998, pp.60-61.

### Conclusion

This chapter has looked at the ideological disparity between Japan and Washington, which has led to their different views on the East Asian crisis. Although they start from common policy goals that developing and transition countries should pursue, namely introducing market economy and democracy, Japan has a quite different view about the way to achieve these goals, particularly in terms of the role of the government and the policy time span. Considering Japan's past stance of trying not to disturb its US relations or of compromising with US policy, MOF officials' quite assertive attitude against Washington itself deserves special attention. In addition, the discussions in this chapter will help to understand Japan's policies towards the crisis and East Asian regionalism in the following chapters. This chapter suggests that there is a deep-rooted background against which Japan and Washington have taken a different policy stance on the crisis and Japan advocated its policies assertively during the crisis. Also, Chapters 4 and 5 will show that MOF officials' interest in financial regionalism has been closely related to these ideological debates throughout the 1990s.

## CHAPTER 4

### Japanese Policies Towards the East Asian Financial Crisis

Following the discussion in the previous chapter about the causes of the East Asian financial crisis, this chapter offers a detailed narrative and analysis of Japan's policies towards the crisis as well as the background against which these policies came out and were implemented. It looks at how and why Japan has become interested in regional financial cooperation in general, and the Asian Monetary Fund (AMF) in particular, while considering the significance of the New Miyazawa Initiative in analysing the recent Japanese foreign policy. It is also discussed how and why Japan became positively involved in this incident together with the IMF. This subject has not been sufficiently studied so far from the perspective of political economy, and in addressing this limitation in the existing literature, this chapter makes a significant empirical contribution to knowledge. At the same time, the findings presented here will advance the central argument of the thesis about Japan's increasing willingness to take the initiative in the region. Also, the relevance of this evidence about Japan's interest in regional financial cooperation will be explored further in the discussions about East Asian regionalism in the next chapter. Additionally, by noticing some elements of the style in which these policies were pursued, this and the next chapter prepare the ground for a comprehensive analysis of the style of Japanese foreign policy in Chapter 6. The Thai crisis, which eventually triggered the region-wide, or global, crisis, provides the starting point of this chapter.

#### The Thai Crisis

In Thailand, share prices and real estate prices fell significantly in 1996, and eventually the problems of its economy came to be revealed on May 13, 1997, when an unprecedented level of market attack against the Thai baht took place. The Thai government tried to defend the currency by intervening in the market alone or

coordinated with Singapore, Malaysia and Hong Kong, and by imposing a ban on taking the baht out of the country. However, it finally announced, following IMF advice, that it would let the baht float on July 2, judging that it was impossible to keep the baht pegged to the US dollar any more. Nevertheless, in response to the announcement, the speculative attacks of the market increased and the value of the baht against the dollar dropped further<sup>1</sup>, which caused the crisis to expand to neighbouring countries such as Malaysia, the Philippines and Indonesia. In the end, the Thai government called in the IMF on July 28.

Prior to the decision to resort to IMF assistance, the Thai government asked Japan to provide bilateral assistance to help weather the situation, but the Japanese government did not accept the request. Japan's stance at this stage was to coordinate with the IMF, although, as the crisis spread, it came to take a critical position against IMF policies. It was not that Japan was indifferent to the plight of the Thai economy, and in fact the MOF dispatched its senior officials on a mission to Thailand in order to obtain accurate information about the Thai economy at an early stage in mid-May, and a second mission in mid-July, while the Thai Finance Minister met his Japanese counterpart in Tokyo later in July.<sup>2</sup> However, Eisuke Sakakibara, who was a central figure in dealing with the East Asian financial crisis as the Vice Minister of the MOF, argues that, although it might have been possible for Japan to put up most of the necessary funds to stabilise the currency and to ask other East Asian countries to contribute a small share, it considered this option too risky, as the Thai government did not disclose any essential information about its economy, such as the exact amount of its foreign reserves and the extent of the government intervention in the market.<sup>3</sup> Another finance official commented that Japan had to coordinate with the IMF, because Japan did not have unlimited funds for intervention, and also because only the

<sup>1</sup> It lost 20 percent of its value on the day of the announcement.

<sup>2</sup> Sakakibara, *Nihon to Sekai*, pp. 167-177.

<sup>3</sup> *Ibid.* p. 177.

international organisations were in a position to advise other countries about their policies.<sup>4</sup> Under the circumstances, Japan suggested that the Thai government request IMF assistance, while Japan itself began to contact the IMF to discuss closely the Thai issues.

Japan's persistence in believing that the IMF should play an important role at this early stage of the crisis should be noted. As argued in the previous chapter, while there has been a great deal of disagreement about economic management between the Washington Consensus institutions and Japan, few Japanese officials and academics failed to dispute before the crisis the tenet of the Washington Consensus with respect to the governance of international finance, namely the tenet that the liberalisation of financial and capital markets will lead to economic benefits even for developing countries. Many East Asian countries followed this position, having rapidly liberalised their financial markets and having positively taken foreign capital into their economies since the early 1990s. Thailand, for instance, established an offshore market called Bangkok International Banking Facilities (BIBF) in 1993, through which it tried to obtain short-term capital for economic development. These policies of the East Asian countries were supported not only by the IMF and the World Bank, but also by the G7 countries, including Japan, at that time, although later they admitted that the eventual reckless inflow of foreign capital was one of the factors that caused the crisis, as discussed in Chapter 3. This support for liberalisation in East Asia on the part of the West and Japan was, to a degree, a response to pressure from their own financial institutions, who had been keen on lending to East Asian firms since the early 1990s, and who lobbied their governments to encourage East Asian governments on the path towards radical financial deregulation. Furthermore, when the idea of floating the baht, which became the trigger of the crisis, was suggested by the IMF, Japan did not oppose it. In short, despite the apparent difference between Japan's stance and that of the IMF

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<sup>4</sup> Interview with a MOF official (International Bureau), March 28, 2001.



with regard to economic development, Japan failed to contest the Washington Consensus in the field of finance at this time.

In spite of refusing to grant Thailand's request for bilateral assistance, Japan played an important role in organising the Thai rescue package under the IMF scheme. Although an agreement was promptly reached between the IMF and Thailand, it soon became clear that the estimated US\$14 billion necessary fund far exceeded the available resources from the IMF and other international organisations.<sup>5</sup> Under the circumstances, Japan, who, after consulting with the IMF, convened a meeting for rescuing Thailand in Tokyo on August 11, went to great lengths to make the meeting successful. MOF senior officials flew to East Asian countries to try to persuade them to contribute to the package by stressing the importance of cooperation by regional countries and emphasising that Japan would contribute US\$4 billion, which was equal to the IMF contribution.<sup>6</sup> Eventually, the meeting was a greater success than expected, and a total of US\$17 billion was committed to the package. In addition to US\$4 billion each from Japan and the IMF and 1.5 billion and 1.2 billion from the World Bank and the ADB respectively, East Asian countries and Australia offered a total of US\$6.5 billion, while the US failed to make a contribution,<sup>7</sup> although the US instead pressed for an increase in Thailand's access to the IMF's regular loan facilities from 300 percent of its quota to 500 percent. Sakakibara writes that the hall of the conference was filled with unusual enthusiasm that could be described as 'Asian solidarity',<sup>8</sup> and Japan's positive attitude continued after the Thai meeting.

<sup>5</sup> IMF Assistance to Thailand was US\$4 billion at most then.

<sup>6</sup> Shigeki Kimura, "Ajia tsukakiki- koku saikyoku kara mita kono ichinen [the East Asian financial crisis- a year as seen by the International Bureau]," *Fainansu* 34:7 (1998), and Sakakibara, *Nihon to Sekai*, pp.179-180. Also, interview with a MOF official (International Bureau), March 28, 2001.

<sup>7</sup> After the Mexican crisis in 1994, Congress put restrictions on US emergency funding to the Exchange Stability Fund (ESF). That restriction was close to expiring when the Thai crisis occurred, and the Treasury hesitated to ask Congress for an exemption for Thailand in order to avoid further restrictions on the ESF. (Green, *Japan's Reluctant Realism*, p.245)

<sup>8</sup> Sakakibara, *Nihon to Sekai*, p.180.

### The AMF proposal – the origin and initial discussions

Given impetus by the great success of concluding the Thai rescue package, which demonstrated an inclination towards collaboration among East Asian countries with the US refusing to participate in it, the idea of establishing the AMF, which would be a permanent fund contributed to by regional countries to prevent a future crisis from occurring, was put forward and discussed intensively among Japan, other East Asian countries, the US and the IMF during the rest of the year.

There is no consistent view about who, Japan or ASEAN, originally initiated the idea and how it was discussed among the countries concerned. However, by putting all available information together, it is reasonable to suggest that a similar, but not identical, idea was examined among the ASEAN countries and also separately within Japan before it became public in mid September. On August 19, the Thai Foreign Minister was reported as saying that he would propose the establishment of an ASEAN monetary fund (as was tentatively named then) by the ASEAN countries to support their currencies against foreign speculations.<sup>9</sup> Later, the Philippine Foreign Minister revealed that the ASEAN countries had been considering the idea and that it would be discussed in September during the meeting of ASEAN Foreign Ministers.<sup>10</sup> The ASEAN countries agreed in principle to have such a preventive organisation of their own at that time, but wondered about the feasibility of financing an adequate fund by themselves and the discussions were at a standstill.<sup>11</sup> It was under these circumstances that Japan told them that it was thinking about a region-wide financial organisation in East Asia, and was ready to be the largest contributor to the organisation.<sup>12</sup>

<sup>9</sup> Sankei Shinbun, 19 August 1997, and Nihon Keizai Shinbun, 19 August 1997.

<sup>10</sup> Sankei Shinbun, 31 August 1997.

<sup>11</sup> Interview with a MOF official, May 12 (International Bureau), 2000.

<sup>12</sup> Interview with a MOF official, May 12 (International Bureau), 2000. Also, Anthony Rowley notes that, according to some observers in Hong Kong, Tokyo was "acting under the guise of supporting the so-called ASEAN initiative, which, after all, owed much of its genesis to Japanese thinking and behind-the-scenes persuasion." (Anthony Rowley, "Asian Fund Special:

The MOF started to work on establishing the AMF immediately after the conference on August 11. Sakakibara writes in detail about how Japan proceeded with negotiations with the countries concerned.<sup>13</sup> Before drafting Japan's proposal, Sakakibara first sounded out the Governor and the Vice Governor of the Hong Kong Monetary Authority on August 24 as well as the Finance Minister of Singapore on August 30. Then the MOF worked on the Japanese plan, which was proposed unofficially to Hong Kong, Singapore, Malaysia, Indonesia, and Korea by Sakakibara himself on September 10, while other senior officials in the International Finance Bureau of the MOF visited China and Australia to explain the proposal on the same day. On September 12, the Japanese Finance Minister sent out the Japanese proposal to the nine countries of Australia, China, Hong Kong, Indonesia, Korea, Malaysia, the Philippines, Singapore and Thailand, which were expected to be members of the AMF according to the Japanese plan. Then Japan requested these countries to hold a session to discuss the proposal during the IMF/World Bank meeting scheduled on September 23 and 24 in Hong Kong.

The original Japanese plan was to establish a fund of US\$100 billion, out of contributions by member countries. It was reported later that Japan intended to contribute US\$50 billion.<sup>14</sup> The proposal contained several controversial issues, which provoked the strong opposition of the US and the IMF, as discussed below.

The first contentious point of the proposal was the issue of membership. According to the Japanese plan, membership was limited to the countries that Japan had sent its proposal to, and the US was not included. Japanese officials insist that Japan did not try to exclude the US from East Asia, but that they assumed there was no chance that

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the Battle of Hong Kong." *Capital Trends* 2:13 (1997). [www.gwjapan.com/ftp/pub/nrca/civ2n13b.html](http://www.gwjapan.com/ftp/pub/nrca/civ2n13b.html).)

<sup>13</sup> Sakakibara, *Nihon to Sekai*, pp.182-185. The rest of the paragraph draws on Sakakibara's memoirs.

<sup>14</sup> *Sankai Shinbun*, 9 October 1997.

the US would contribute to such a regional fund, given the US reluctance to participate in the Thai package.<sup>15</sup> Also, Sakakibara states that if the US were included in a regional framework, it would not be really regional, and no different from the IMF, as it would be expected that the US would interfere in what Japan and other East Asian countries would like to do.<sup>16</sup> Apparently, his comment indicates that Japan (or at least Sakakibara) wanted a regional organisation free from US intrusion. The US unsurprisingly became very anxious about Japan's intentions.

Secondly, the AMF proposal was not clear about what the relationship between the AMF and the IMF would be, and there was a question about what sort of conditionality, if any, the money provided by the AMF would carry with it. Japan's stance on these issues was not necessarily consistent throughout the negotiation process that lasted until mid November. Hiroshi Mitsuzuka, the then Japanese Finance Minister, was reported on several occasions as insisting that the AMF would be a supplementary organisation to the IMF. However, Anthony Rowley writes that, despite the MOF's insistence that the new regional facility should be contingent upon IMF approval and the money it provides should be additional to IMF resources, sources close to Tokyo's official thinking suggested that the new facility could offer funds in cases where no policy conditionality is required or in cases where the IMF might be slow in coming up with the money.<sup>17</sup> Sakakibara also notes that he and other officials originally considered the possibility that the AMF would attach less stringent conditions to its assistance than the IMF and retain some independence from the IMF.<sup>18</sup> A finance officer said that, although there was not necessarily consensus about this matter, some were of the opinion that the AMF should be independent of the IMF. But, he continued, later the MOF came to stress the AMF's consistency with IMF conditionality in response to the fierce criticism of the US and the IMF claiming that the AMF would be

<sup>15</sup> Interview with MOF officials (International Bureau), May 12, 2000 and March 28, 2001.

<sup>16</sup> Interview with Eisuke Sakakibara (Former MOF Vice Minister), September 18, 2001.

<sup>17</sup> Anthony Rowley, "Asian Fund special."

<sup>18</sup> Sakakibara, *Nihon to Sekai*, p 184.

a potential cause of moral hazard.<sup>19</sup>

The US and the IMF began to attack the AMF, after Japan sent its AMF proposal to the intended member countries. On September 17, the then US Treasury Secretary Robert Rubin alerted the Japanese Finance Minister by telephone that the US was definitely against the AMF, while the US government sent letters to the Finance Ministers of the member nations of APEC, which were signed by Rubin and the US Federal Reserve Board Chairman Alan Greenspan. The letter stated that the US was ready to consider regional concerted actions to manage economic crises instead of the AMF and that the IMF had to be at the centre of any such attempt.<sup>20</sup> Meanwhile, Japan tried to counter this move of the US.

The climax of the battle over the AMF, according to Sakakibara, came on September 18–21, 1997, when the finance ministers and senior officials of the countries concerned came together to attend a series of meetings.<sup>21</sup> The Japanese proposal concerning the AMF was discussed among the ASEAN finance ministers on September 18 in Bangkok, preceding the finance ministers' meeting of the Asia-Europe Meeting (ASEM) countries scheduled on the next day, and the proposal was supported there. Then, the venue was changed from Bangkok to Hong Kong. The AMF was one of the items on the agenda of the G7 meeting on September 20, when some European countries expressed reservations about it. On September 21, prior to the annual IMF/World Bank general assembly on September 23, the ten proposed member countries plus the US and the IMF held a Deputy-level meeting to discuss the proposal. As expected, ASEAN countries and Korea were in favour of the proposal, while the US strongly opposed it. China, Hong Kong and Australia did not express their stance clearly, but Australia had given Japan a negative message before the

<sup>19</sup> Interview with a MOF official (International Bureau), March 28, 2001.

<sup>20</sup> Sakakibara, *Nihon to Sekai*, p186.

<sup>21</sup> Ibid. pp186–189.

meeting.<sup>22</sup> The meeting finally failed to reach a conclusion.

### The politics surrounding the AMF

In order to understand this outcome, it is necessary to make clearer the stance of the countries concerned towards the AMF proposal.

Not all the ASEAN countries were enthusiastic about the Japanese proposal particularly after the US expressed strong opposition<sup>23</sup>, although none of them objected to it publicly.<sup>24</sup> Malaysia, particularly Prime Minister Mahathir Mohamad, which had long been against the IMF or perhaps 'Western values' and never wanted to rely on the IMF, was unsurprisingly a strong supporter for the AMF. It may be that the Malaysian officials did not want to accept the reforms suggested by the IMF of the country's industries, in which they had vested interests.<sup>25</sup> Thailand and Indonesia were also in favour of the proposal. In Thailand, who was already under the IMF program, there was resistance to the severe structural reforms that IMF had demanded. The situation was similar in Indonesia, who wanted to avoid IMF reforms that could damage the government, although it was soon to request IMF assistance. On the other hand, Singapore, who was the closest to the US among the ASEAN countries and strongly wished to keep the US engagement in the region, was not in favour of the framework that excluded the US,<sup>26</sup> and neither was the Philippines, which was concerned that the formation of a new economic organisation in the region could cause

<sup>22</sup> Ibid., p.187.

<sup>23</sup> Interview with a MOF official (International Bureau), May 12, 2000.

<sup>24</sup> Interview with a MOF official (International Bureau), March 28, 2001. The following account on the stance of ASEAN countries is largely based on an interview with a MOF official (International Bureau), May 12, 2000, who was posted in the Japanese embassy in Thailand then and was able to sound out informally ASEAN countries.

<sup>25</sup> Nesadurai argues that IMF reforms were unacceptable to Malaysian leaders, because the IMF conditionalities could involve the eventual dismantling of the ethnic-based distributive policy that favours ethnic Malays. The political legitimacy of the current government is based on the continuation of this policy, which is also an essential element of the politics of patronage that is entrenched in the Malaysian political economy. (Helen E. S. Nesadurai, "In Defence of National Economic Autonomy?: Malaysia's Response to the Financial Crisis," *The Pacific Review* 13, 1 (2000), pp.73-113.)

<sup>26</sup> Another officer also noted Singapore's negative stance about the AMF. (Interview with a MOF official (International Bureau), March 28, 2001).

a decline in the authority of the ADB, whose headquarters were located in the country's capital.

South Korea was supportive of the AMF. Although the country tends to dislike any Japanese initiative in the region because of Japan's colonisation during the war, it can be inferred that it wanted to secure a way to achieve liquidity, without making a humiliating request for IMF assistance, given that its foreign reserves had been critically diminished since the Thai crisis. In fact, the level of South Korea's foreign reserves was only about US\$21 billion as of the end of September and foreign capital was still being withdrawn.<sup>27</sup>

Although China did not oppose the Japanese proposal directly, it remained cautious about Japan's leadership in East Asia and did not support the AMF.<sup>28</sup> China tends to associate Japanese initiatives in the region with Japan's attempts to create a Greater East Asia Co-Prosperty Sphere in the past, and this always makes China sceptical about Japan's goodwill in its regional policy.<sup>29</sup> In addition, China basically wants neither Japan nor the US to dominate the region. If a regional framework does exist, such as in the case of APEC, China has to participate in order to prevent Japan or the US from dictating, but sees no reason to positively support the creation of a new organisation, in which Japan or the US could exert influence.<sup>30</sup>

In the meantime, Hong Kong was reluctant to give its support to the proposal as well.

<sup>27</sup> Sakakibara, *Nihon to Sekai*, p.202-203.

<sup>28</sup> Interview with MOF officials (International Bureau), May 12, 2000 and March 28, 2001, Masatsugu Asakawa (Director, Office of Regional Financial Co-operation, International Bureau, MOF), March 30, 2001 and Eisuke Sakakibara (Former MOF Vice Minister), September 18, 2001). According to a Japanese daily, China and the US had conferred on the AMF behind the scenes and had agreed not to support it before the conference in September. It reported that the US used the card of the issue of WTO membership. (*Sankei Shinbun*, 7 December 1997.)

<sup>29</sup> Shaun Breslin, "Beyond Bilateralism? The Local, the Regional and the Global in Sino-Japanese Economic Relations," paper presented at Japan and China: Economic Relations in Transition, German Institute for Japanese Studies, Tokyo, January 2001.

<sup>30</sup> Ibid. Also, Eisuke Sakakibara (Former MOF Vice Minister) commented about China's dislike of Japan's regional initiatives. (Interview, September 18, 2001)

It was reported that it had difficulties building a domestic consensus for the AMF, as the government had had a hard time dealing with the parliament's opposition to the country's US\$1 billion contribution to the Thai rescue package in August 1997.<sup>31</sup> Also, according to one newspaper, China and Hong Kong preferred to hold on to their foreign reserves as the currency peg of Hong Kong remained under pressure, rather than commit to a larger framework.<sup>32</sup> Meanwhile, Australia was also negative about the AMF plan, explaining that it would be difficult to get domestic support for contributing to the fund.<sup>33</sup>

As far as the IMF was concerned, the AMF would be just an awkward institution, which could undermine its authority and the effectiveness of its activities and could reduce its influence in East Asia. As argued before, some Japanese officials hinted that the AMF would not simply be a subset of the IMF, but retain some autonomy. Also, the Malaysian Prime Minister asserted that the AMF should be completely independent of the IMF. Those remarks made IMF officials very cautious about the idea. They claimed that such a regional fund was not only unnecessary, but also harmful, as a fund that was readily and easily available during any crisis could lead to poor banking and business management, namely it would create moral hazard. They also feared that the IMF would have difficulty in getting countries to accept its conditionality and to agree about the reforms it demanded.

European countries were relatively indifferent to the matter, but there was no reason why they should support the establishment of an organisation that could reduce the importance of the IMF, which traditionally had had a close relationship with Europe.

The US opposed the AMF proposal giving the same reasons as the IMF, namely the duality of function between the IMF and the AMF and the possibility of creating moral

<sup>31</sup> *Mainichi Shinbun*, 28 September 1997.

<sup>32</sup> *The South China Morning Post*, 21 November 1997.

<sup>33</sup> Sakakibara, *Nihon to Sekai*, p. 187.



hazard. However, another problem with the AMF, as far as the US was concerned, was that the US was not a member of the proposed organisation. There seems to be a concern about its declining influence in East Asia while Japan looked increasingly dominating, particularly after the conclusion of the Thai rescue package, where Japan had played a central role and the US had failed to contribute. Sakakibara writes that he had a phone call from the then Deputy Treasury Secretary Lawrence Summers on September 14, and Summers's worries were that the US was not supposed to be a participant in the AMF, and the AMF could act independently of the IMF.<sup>14</sup> Sakakibara further states that the US seemed to have taken the AMF as Japan's challenge to US hegemony in Asia.<sup>15</sup>

Furthermore, the US has never been able to accept the formation of any organisation that could weaken IMF influence, because the IMF is a very important and convenient channel for US foreign policy. Thus, the US could not support an organisation that could be a threat to IMF authority. There are a number of reasons why the IMF is so important to US foreign policy.

First, the US and the IMF share the same ideology of economic management, namely the neoclassical orthodoxy, as discussed in Chapter 3. The US can consequently spread what it believes to be correct via the IMF's structural adjustment policy.

Second, the US can push its agendas on its foreign policy more smoothly and with less conflict via the IMF than by itself. Cohen points out that the IMF is a convenient conduit for US influence, because:

Any effort by Washington itself to impose unpopular policy conditions on troubled debtors would undoubtedly have fanned the flames of nationalism, if

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<sup>14</sup> Ibid. p.185.

<sup>15</sup> Ibid. p.186.

not revolution, in many countries. But what would be regarded as intolerable when demanded by a major foreign power might, it seemed, be rather more acceptable if administered instead by an impartial multilateral agency.<sup>36</sup>

Similarly, Kahler writes that the US utilises the IMF "as a buffer in awkward bilateral relations, imposing economic conditions that the United States would find it hard to impose bilaterally."<sup>37</sup>

Third, given that the US public interest has shifted from international to domestic matters after the end of the Cold War, bailout through the IMF is much more likely to get the support of the American people, as well as that of Congress, than bilateral assistance. In particular, the government has been increasingly constrained by Congress from committing to international initiatives financially, as observed in the Thai bailout package in August 1997. Although the US government has been facing the difficulty of Congress opposition to the increase of the IMF quota, any bilateral rescue would be even more difficult domestically.

Fourth, the US can simply shift some costs of any bailout to other industrialised countries through the IMF. In the case of the East Asian financial crisis, given the size of the economic stakes that American firms had in East Asia, (lower than the stakes for Japanese firms operating there, though), the US could not be indifferent to the region's trouble. IMF packages are quite convenient means for pushing a part of the cost of any bailout onto other countries. Also, it could be said that under the IMF umbrella, it is more feasible to involve more countries in a rescue package.

<sup>36</sup> Benjamin J. Cohen, *In Whose Interest? International Banking and American Foreign Policy* (New Haven: Yale University Press, 1986), p.229.

<sup>37</sup> Miles Kahler, "The United States and the International Monetary Fund: Declining Influence or Declining Interest?" in Margaret P. Karns and Karen A. Mingst, eds., *The United States and Multilateral Institutions: Patterns of Changing Instrumentality and Influence* (London: Unwin Hyman, 1990), p.110.

Finally, the US is traditionally in a position to pursue its own favourable policy through the IMF. It enjoys a dominant influence on the decision-making process in the IMF, where it keeps the largest share in the quotas among all the member countries, although this has declined in the last few decades.<sup>38</sup> The US dominance in the IMF may also come from what Jagdish Bhagwati calls a Wall Street-Treasury Complex,<sup>39</sup> that is, "a definite networking of like-minded luminaries among the powerful institutions – Wall Street, the Treasury Department, the State Department, the IMF and the World Bank," which arises from the fact that the members of this elite go back and forth among these institutions, for instance Secretary Rubin comes from Wall Street. Bhagwati argues that this powerful network is "unable to look much beyond the interest of Wall Street", and "the IMF has been relentlessly propelled toward embracing the goal of capital account convertibility". In short, IMF policy could easily tend to favour US national or domestic interests. Also, as mentioned in the previous chapter, with respect to IMF policies towards the East Asian financial crisis, Wade and Vencoso document the influence of the US Treasury Department and the Wall Street on the IMF policies, arguing that the IMF 'bail-outs' with the combination of massive devaluations, the IMF pushed financial liberalisation, and the IMF facilitated recovery are equally 'bails-ins' for foreign corporations and the multilateral institutions, where US firms would benefit greatly, while these policies are likely to cause far-reaching damage in Asia.<sup>40</sup>

#### **What made Japan interested in a regional financial mechanism?**

Although it may look as if Japan's proposal for the AMF was simply an unexpected response to the East Asian crisis, strengthening financial cooperation for the sake of financial stability in the region, or even creating some regional financial framework, had been on Japan's agenda for some years, which probably enabled Japan to put forth

<sup>38</sup> It has declined from 38 percent in 1946 to around 18 percent at present.

<sup>39</sup> Jagdish Bhagwati, "The Capital Myth," pp 10-12.

<sup>40</sup> Robert Wade and Frank Vencoso, "Asian Financial Crisis."

the AMF proposal very promptly.

Some efforts for closer regional cooperation had been already made before the crisis. In particular, the Mexican crisis in 1994 gave some concern to the Japanese monetary authorities, the MOF and the Bank of Japan (BOJ), and made them take some actions to assure financial stability in the region and put forward some regional mechanisms.<sup>41</sup> Japan signed an agreement for entrustment intervention with Hong Kong and Singapore in February 1996. Subsequently, in April 1996 the Japanese monetary authorities agreed on the repurchase (repo) arrangements of US dollar government securities to provide liquidity on a bilateral basis with seven countries in the region, namely Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Australia.<sup>42</sup> These repo arrangements were not directly linked to Japan's proposal for the AMF, but later developed into more networked arrangements called the Chiang Mai Initiative,<sup>43</sup> which were agreed on in May 2000, as discussed in the next chapter.

Even before the Mexican crisis, the BOJ initiated an unofficial forum for the region's central banks (Australia, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand) in 1991, which is called the Executive Meeting of East Asia-Pacific Central Banks (EMEAP). Its primary objective is to strengthen the cooperative relationships among its member countries and to exchange opinions about each other's financial policy and the like. For the first six years it held Deputies' meetings twice a year, but since 1996 Governors' meetings and various working/study groups have been held on a regular basis. The BOJ has provided the secretariat function since its inception. Although the US has shown an interest, it is not a member, probably because ASEAN countries have opposed US

<sup>41</sup> Eiichi Yamamoto, *Kokusai Tsuka Shisutemu [the international currency system]* (Tokyo: Iwanami Shoten, 1997), p.224.

<sup>42</sup> The arrangements placed the limit at US\$1 billion. Before these arrangements, the five Southeast Asian economies of Hong Kong, Indonesia, Malaysia, Singapore and Thailand agreed on the same sort of transactions in November 1995.

<sup>43</sup> Interview with a MOF official (International Bureau), May 12, 2000.

membership.<sup>44</sup>

Moreover, some informal discussions about further financial mechanisms in the region were going on before the crisis. Even the idea of the AMF itself had been nursed at a private level by some Japanese officials, such as Haruhiko Kuroda, the then Chief of the International Finance Bureau and currently Vice Finance Minister, supported by some intellectuals, such as Hajime Shinohara, Managing Director of the Institute for International Monetary Affairs.<sup>45</sup> Also, it was reported that prior to the Thai crisis some MOF officials had considered establishing a regular meeting of East Asian Finance Ministers and Central Bank Governors, which would be held three times a year in order to discuss frankly the macroeconomic performance as well as the monetary policies of their countries and to take collaborative action when necessary.<sup>46</sup> Furthermore, in an EMEAP Governors' meeting, where Japan naturally has a large influence, held in July 1997 in Shanghai, prior to the Thai rescue conference, they agreed to investigate some kind of financing facility among the EMEAP member countries to support the economic policies of their countries, in cooperation with the IMF.<sup>47</sup>

Although these policies and discussions prior to the crisis were not necessarily concerned with Japan's proposal for the AMF directly, it is noteworthy that there was a mood in the MOF to consider a regional framework. The Thai crisis provided an opportunity for Japan to advance such an idea. In fact, Sakakibara writes that he and other officials thought that they should take advantage of the atmosphere that arose in the Thai conference and use it as a driving force to advance the agenda.<sup>48</sup> It could be argued that this background helped Japan propose the AMF so speedily in September.

<sup>44</sup> Masayuki Tadokoro, "Ajianiokeru chiiki tsuka kyoryoku no kosatsu [a study on currency cooperation in East Asia]," *Leviathan* 26 (2000), p.65.

<sup>45</sup> Sakakibara, *Nihon to Sekai*, p.182, also interview with Sakakibara, September 18, 2001.

<sup>46</sup> *Sankei Shinbun*, 2 November 1997.

<sup>47</sup> Sakakibara, *Nihon to Sekai*, p.182.

<sup>48</sup> *Ibid.*, p.182.

Although the interest of Japan in closer financial cooperation in East Asia is partly due to the lessons from the Mexican crisis as well as past policies and discussions during the 1990s, there are also various underlying factors at play in this interest of Japan. These factors are a reflection of the shift in the nature of Japanese foreign policy, namely its increased interest in East Asia and an East Asian framework, as well as a growing willingness to take initiatives in the region.

One apparent reason for Japan's interest in creating a regional mechanism is the deepening economic interdependence in East Asia. As discussed in Chapter 2, East Asia has become considerably more important to Japan economically because of Japan's closer economic ties with the region. From a microeconomic point of view, a sound East Asian economy has been vital for Japanese firms and financial institutions. East Asia is an important trading partner as well as a foreign direct investment destination. Also, the Japanese financial institutions have massive exposure to East Asia, much larger than the American and European financial institutions have. Financial instability in the region could be a serious blow to the Japanese economy. In addition, the disturbance of the East Asian financial system, and subsequently that of the international financial system, could damage Japan's macro-economy through the fluctuation of the yen and the plunge in the value of the stock markets. Therefore, it can be argued that Japan's interest in East Asian financial regionalism and its positive attitude towards it has been consistent with its national interests.<sup>49</sup>

In addition, a political factor, namely Japan's willingness to assume a greater political role in the region, has also contributed to Japan's turn towards regional financial

<sup>49</sup> For instance, the report of the Subcommittee on Asian Financial and Capital Markets under *Gaitame Shingikai* in the MOF about the East Asian crisis reads: "Japan has a vital interest in the stability of the region and its sound economic development" (p.46.) Also, some interviewees noted that the importance of the stability of the East Asian economies to Japan was behind Japan's interest in regional financial cooperation. [Interview with a MOF official (International Bureau), May 12, 2000, Mitsuo Miura (Yomiuri Shinbun), May 24, 2000, Masatsugu Asakawa (Director, Office of Regional Financial Co-operation, International Bureau, MOF), March 30, 2001 and Eisuke Sakakibara (Former MOF Vice Minister), September 18, 2001]

cooperation. It was already discussed in Chapter 2 why since the 1980s and particularly the end of the Cold War Japan has been more interested in taking political initiative in regional matters beyond aid giving. The end of the Cold War has made Japan's international status quite uncertain, while inducing the Japanese policymakers to recognise that contributing money alone was no longer sufficient or acceptable. For maintaining and enhancing its international status, they have come to believe that Japan has to demonstrate its ability and willingness to take more initiative beyond chequebook diplomacy, and, due to historical, economic and geographic reasons, East Asia has become the main venue where Japan can do this. Also, the financial area is one of the areas where Japan's initiatives are quite feasible. In other areas, particularly security, its positive policies are still quite limited due to Japan's extraordinary dependence on the US as well as the history of its colonisation of the region, although, as argued in Chapter 2, even in the security field, Japan has gradually showed a more positive stance than before. It can be argued that this political understanding of the Japanese policymakers after the end of the Cold War has led to their growing interest in East Asian relations and their enthusiasm for East Asian regionalism and financial regionalism in particular.

It could also be argued that Japan's interest in financial regionalism or a regional financial mechanism has been in a sense a reflection of its dissatisfaction with the existing international economic system that centres on the Washington Consensus. As argued in Chapter 3, there has been an ideological divergence, which has lasted throughout the 1990s, between the Washington Consensus institutions and the Japanese government, particularly the MOF, concerning economic development and systemic transition. Japan has increasingly become sceptical about the effectiveness of what Washington has promoted, such as structural adjustment policy, and its inclination to implement the same policy universally to any country. The previous chapter also argued that this ideological disparity led to their different interpretation of

the causes of the crisis. These differences have made Japan dissatisfied with IMF policies towards the crisis, although Japan failed to oppose the arguments about the efficacy of financial openness and deregulation in the East Asian developing economies before the crisis, as discussed above. Sakakibara clearly made this point when he said that he and other finance officials in charge were very dissatisfied with IMF policies towards the crisis, and according to them the IMF, led by the US, imposed unreasonable structural reforms on crisis-hit countries. He continues, by proposing the AMF and later by advancing regional financial cooperation, he together with other finance officials consciously tried to challenge the existing international system: the US strong opposition to the AMF was couched in terms that indicate that the US officials sensed such an intention from Japan.<sup>50</sup> Strictly speaking, when it proposed the AMF, Japan had not had a clear idea about the causes of the crisis, and only the later policies towards closer regional financial cooperation, as argued below, reflected to a greater extent these differences of interpretation and interest in relation to the East Asian crisis. However, as Sakakibara's remarks show, even the proposal of the AMF should be considered in the context of these ideological disparities, which had made Japanese officials, particularly MOF officials, sceptical of the Washington Consensus for about a decade.

Moreover, Japan's dissatisfaction with the establishment in Washington is not limited to their ideological difference: Japan's influence in the existing international organisations is quite limited, and it is difficult to get Japanese views reflected on their policies, despite the fact that Japan is now one of the main contributors in most organisations.<sup>51</sup> This is partly because Japan is a latecomer to these organisations. Also, Japan's voting share in the international organisations is not high, considering the

<sup>50</sup> Interview with Eisuke Sakakibara (Former MOF Vice Minister), September 18, 2001. Aramaki also notes that the AMF proposal comes out of Japan's different stance on IMF policies towards the crisis. (Interview with Kenji Aramaki (MOF), March 27, 2001)

<sup>51</sup> Interview with Masatsugu Asakawa (Director, Office of Regional Financial Co-operation, International Bureau, MOF), March 30, 2001, and Kenji Aramaki (MOF), March 27, 2001.



amount of its contributions.<sup>52</sup> Moreover, the number of the Japanese staff in these organisations is small, particularly in some of the key posts, and it is said that the Japanese officials that are stationed there on temporary posts feel uncomfortable and helpless in the Western dominated organisations.<sup>53</sup> Aramaki comments that Washington's language is neoclassical economics, and thus influencing Washington's policy is hard for Japan, who does not share the language.<sup>54</sup> It can be argued that these situations have made MOF officials interested in establishing 'their' organisations,<sup>55</sup> which has indirectly contributed to Japan's assertive policies towards the crisis and the regional financial cooperation.

At the same time, there is some awareness among the MOF officials about the risk of relying solely on the international organisations. They think that, due to their US-centred nature, these organisations are limited in their ability to deal with East Asian issues because of their access to a limited volume of available resources and information. A MOF official comments that the MOF does not take the stance that the IMF is unnecessary, and when problems emerge, its existence is crucial. However, he continues, the IMF cannot be expected to resolve future crises on its own, and, in fact, the IMF alone was not able to provide sufficient funds for the East Asian financial crisis.<sup>56</sup> The fact that the US has been less willing to commit to East Asian matters, as revealed in its reluctant attitude towards the Thai rescue package, gives another reason for this position of the MOF officials. In short, the MOF officials have come to believe strongly that it is essential to establish some self-help mechanisms in East Asia to

<sup>52</sup> Japan is put in the second place in the IMF and the World Bank (6.33% and 7.91% respectively), but this is still proportionally far behind the US (17.67% and 16.49%). (as of June 2000)

<sup>53</sup> Aramaki states that the organisational culture of the international organisations is quite different from that of Japan, or the MOF (Interview with Kenji Aramaki (MOF), March 27, 2001).

<sup>54</sup> Interview with Kenji Aramaki (MOF), March 27, 2001.

<sup>55</sup> Yoichi Funabashi points out that the MOF officials lack the ability to influence policymaking processes in the international organisations, and thus they tend to have parochial considerations and to do something by themselves, rather than make an effort to advocate their views internationally. (Interview with Funabashi (Asahi Shinbun), June 1, 2000)

<sup>56</sup> Interview with a MOF official (International Bureau), March 28, 2001.

supplement the existing international system for preventing and preparing for any future financial disturbance.

It is not true that Japan is moving away from the existing international organisations. It has been traditionally a supporter of the international organisations and, in fact, tried to cooperate with the IMF in the early stages of the East Asian financial crisis, as argued above. Japan has made, and will make, an effort to raise its position in the existing organisations and to voice its views on their policies. This has been consistent with what Japan has been doing throughout the postwar period, namely enhancing its international status. Nevertheless, Japan's dissatisfaction with the international organisations should not be overlooked. As discussed below, this dissatisfaction became more conspicuous as the crisis spread and deepened.

Finally, it may be possible to think about Japan's positive attitude towards closer financial cooperation in the region from the viewpoint of Japan's domestic policymaking process. At the risk of over-generalisation, it can be said that the MOF tends to be less constrained by US relations in its policy and to be in a position to assert the importance of East Asian relations more, compared with the MOFA. Of course this is not to say that the MOF tends to neglect the importance to Japan of US relations, but sometimes the MOFA has been too cautious about US relations, which has prevented the ministry from taking positive East Asian policies in the past.<sup>87</sup> In fact, it is even said that many of the MOF officials were sympathetic to the EAEC when proposed by the Malaysian Prime Minister in the early 1990s. These differences can be attributed to the MOF's character as an economic ministry as against the MOFA, which is a diplomatic ministry. It may also be that due to the MOF's historical tie with the ADB, discussed in Chapter 2, there have been more 'Asianists' in the MOF than in the MOFA, while the decade-long ideological discussion of development issues has

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<sup>87</sup> Hook et al. *Japan's International Relations*, pp.43-45.

possibly been an opportunity for MOF officials to become motivated to display a measure of assertiveness towards the US and to learn how to do it. It can be argued that the differences in mandate and orientation of the MOF and the MOFA are one of the reasons why Japan's interest in regional cooperation became conspicuous in the financial area.

#### **The failure of the AMF proposal and its replacement with the Manila Framework**

Although Japan continued to make an effort to realise the idea of the AMF and discussed the issue with some ASEAN countries bilaterally even after the meeting in Hong Kong on 21 September 1997, the deepening and the spreading of the crisis made the situation difficult for the pursuit of this project. The currencies of Thailand, Malaysia, Indonesia and the Philippines, which had been under strong pressure since July, continued to fall, and on October 8, Indonesia finally appealed to the IMF, following Thailand and the Philippines.<sup>58</sup> Furthermore, the crisis reached Taiwan in the middle of October, when the Taiwan dollar plunged, which triggered a speculative attack against the Hong Kong dollar. Overnight interest rates in Hong Kong rose from 7 % to nearly 300% on 22 October, while the stock market fell by 10.4% the following day. Then, the crisis spread to Korea at the end of October, leading to the sharp drop of the Korean won. Japan experienced two large bankruptcies of financial institutions in November and its stock markets and the currency plummeted, although it is arguable that Japan's difficulty at that time could be regarded as the result of the contagion of the crisis. Under these circumstances, the impetus for the AMF was lost rapidly.

The AMF proposal was finally replaced by a different framework for regional cooperation, called the Manila Framework, at a meeting of the finance and central bank Deputies in Manila on November 18-19. Fourteen countries (Australia, Brunei,

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<sup>58</sup> The Philippines had been already under the IMF program, and it asked to expand IMF credit on July 18.

Canada, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and the US) attended the meeting, along with the IMF, the World Bank and the ADB as observers. They agreed on four broad principles, on which the framework was based:

1. A mechanism for regional economic surveillance to complement global surveillance by the IMF.
2. Enhanced economic and technical cooperation particularly in strengthening domestic financial systems and regulatory mechanisms.
3. Measures to strengthen the IMF's capacity to respond to financial crises.
4. A cooperative financial arrangement that could supplement the IMF resources.

The Manila framework is different from what the Japanese officials had envisaged in the AMF proposal. There is no specific pooling of resources by member countries, and no standing staff or secretariat. Moreover, the framework does not have any room to act independently of the IMF, being completely subordinated to the IMF. The Manila framework has primarily a monitoring and supervisory role, although, if necessary, funds could be provided on a case-by-case basis after a program and conditionality are agreed between the IMF and a country threatened by a crisis.

What has to be noticed here are the reasons why Japan finally gave up the AMF. It is generally recognised that the US and the IMF opposition forced Japan to abandon the idea, together with Japan's domestic financial problems that surfaced in the autumn of 1997. They were certainly crucial factors. An official comments that it is unlikely that, under the opposition of not only the US and the IMF, but also international society in general, Japan and East Asian countries could advance regional cooperation.<sup>59</sup> However, this should not be taken as another example of Japan behaving as a reactive

<sup>59</sup> Interview with a MOF official (International Bureau), March 28, 2001.

state. What is important is the influence that the US had on other East Asian countries. In particular, ASEAN countries did not want to risk their economic and security relations with the US by supporting the Japanese plan, even though they were discontented with the US negative attitude and the slow movement of the IMF towards the Thai rescue plan. Altbach points out that it "quickly became clear that there was little appetite in Asia for a confrontation with the United States and the IMF amidst plummeting currencies and stock markets."<sup>60</sup> Although some countries, like Malaysia, still strongly supported a fund independent of the IMF, other countries moderated their positions in the face of strong US opposition and the deepening crisis. In addition, no country other than Japan was willing, or able, to contribute to the proposed fund. As stated before, China, Hong Kong and Australia, who were possible contributors to the fund given the level of their foreign reserves, were not positive from the onset. Also, the Singaporean government was beginning to feel the public pressure domestically against giving assistance to troubled countries after extending US\$1 billion to Thailand and later US\$5 billion to Indonesia. In short, Japan did not maintain a regional support large enough to press forward with its proposal under US opposition. Furthermore, some officials stress that China's reluctance was a fatal blow to the AMF proposal.<sup>61</sup> Japan has increasingly come to take China's stance seriously in its foreign policy decisions, as the country has grown as a regional power in the 1980s and particularly since the 1990s. Also, without China's participation, East Asian regionalism could have only limited significance.

Furthermore, perhaps the fact that there was no sufficient consensus even within Japan might be another reason that made it difficult for Japan to advance the AMF proposal. It seems that there was broad agreement within the MOF about pressing forward with

<sup>60</sup> Eric Altbach, "The Asian Monetary Fund Proposal: a Case Study of Japanese Regional Leadership," *Japan Economic Institute Report* 47A (1997), p.10.

<sup>61</sup> Interview with Eisuke Sakakibara (Former MOF Vice Minister), September 28, 2001, Masatsugu Asakawa (Director, Office of Regional Financial Co-operation, International Bureau, MOF), March 30, 2001 and a MOF official (International Bureau), May 12, 2000.

the AMF. Even the Budget Bureau, which is usually reluctant to increase its disbursements, did not disagree.<sup>62</sup> Sakakibara also obtained the Prime Minister's consent.<sup>63</sup> However, according to MOF officials, the MOFA, which does not have jurisdiction over international and regional financial issues, was not positive about the MOF's plan<sup>64</sup> or continued to be indifferent, at best,<sup>65</sup> partly because the MOFA tends to be more anxious about US relations than the MOF, as argued above, and partly because the MOFA, which is the chief ministry with responsibility for the assistance to East Asia through ODA, technical assistance and so on, does not want to lose its dominant position on this matter.<sup>66</sup> The AMF proposal was abandoned before comprehensive discussions with other ministries were took place.<sup>67</sup>

#### **The AMF proposal and the implications for Japan's policy style**

A series of Japanese policies over the AMF proposal have significant implications for one of the arguments of the thesis, namely the style of Japanese foreign policy. This will be the main subject of Chapter 6, and here it is outlined only briefly to draw attention to the relevance of this issue for the manner in which Japan acted towards the East Asian financial crisis. Japan's unsuccessful attempt to establish the AMF is seemingly considered as a reflection of its lack of ability to take independent initiative in East Asia, let alone the world. Despite Sakakibara's remark that the Manila Framework was in essence consistent with Japan's original ideas, it obviously was not. Several newspaper articles reported that Japan had lost to the US and the IMF, or that Japan bowed to US pressure. The Sankei Shinbun, a Japanese daily, even wrote that

<sup>62</sup> According to a MOF official, the Budget Bureau preferred to appropriate a large one-off payment, rather than having to deal with a request each time a crisis happened. (Interview with a MOF official (International Bureau), May 12, 2000)

<sup>63</sup> Interview with Eisuke Sakakibara (Former MOF Vice Minister), September 18, 2001.

<sup>64</sup> Interview with a MOF official (International Bureau), May 12, 2000.

<sup>65</sup> Interview with Eisuke Sakakibara (Former MOF Vice Minister), September 18, 2001.

<sup>66</sup> Interview with a MOF official (International Bureau), May 12, 2000.

<sup>67</sup> Interview with a MOF official (International Bureau), March 28, 2001.

Japan had been defeated in the struggle for currency hegemony in Asia.<sup>68</sup>

However, as will be discussed later in detail, the AMF proposal was not necessarily a failure from the perspective of Japanese MOF officials, nor was the Manila Framework merely a compromise for Japan. Rather, these policies should be considered in the context of Japan's longer-term policy goals as well as its style in pursuing them. In other words, it is possible to see Japan's proposal for the AMF and the advancement of the Manila framework as a step towards the long-term policy goal of closer financial cooperation in East Asia. It can be argued that the AMF proposal contributed to advancing such a long-term goal by initiating intense regional discussions about closer financial cooperation, and in fact it led to the regional swap arrangements, as discussed in the next chapter. Also, in supporting the establishment of the Manila Framework, there was an implicit motive among Japanese officials to keep on with regional dialogues and maintain momentum for further regional cooperation. These policies are quite consistent with Japan's style of foreign policy, namely to pursue its goals gradually and in a low-profile, less contentious manner. This point will be elaborated in Chapter 6, together with more evidence from the rest of this chapter and the next chapter.

#### **The spread of the crisis to Indonesia and Japan's policies towards it**

The crisis in Thailand soon spread to Indonesia, as mentioned above. The Indonesian government was forced to float its currency, the rupiah, on August 14, 1997 after it had plunged due to speculative attacks. Thereafter, despite various measures taken by the technocratic ministers in the government, the currency and the stock market continued to drop, and on October 8, Indonesia announced that it was seeking IMF assistance.

With respect to the content of the IMF program for Indonesia, there was clear

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<sup>68</sup> Sankei Shinbun, 7 December 1997.

divergence of opinions between Japan and the IMF, although Japan eventually had to give in and cooperated with the IMF to organise a rescue package. The IMF insisted on an overall, and ambitious, structural reform of the Indonesian economy, which included the cancellation of the national car project, the reduction of government subsidies and the drastic restructuring of the banking system in a short period of time. On the other hand, Japan stressed that the pressing need was to stabilise the rupiah through concerted intervention as the crisis centred on confusion on the foreign exchange markets, although Japan accepted that the restructuring of the economy was necessary as a long and medium-term goal.<sup>69</sup> There was a heated discussion between Sakakibara and the chief of the IMF mission, Vijian Agebri, on October 16, but Japan failed to win concessions in the end.<sup>70</sup> On October 31, the IMF and the Indonesian government reached an agreement for a US\$23 billion package, and detailed measures for reforms were announced immediately, including the closure of sixteen ailing banks.

Although Japan was not satisfied with the content of the agreement, it had no choice but to try to make the program successful, once the IMF and Indonesia agreed to it.<sup>71</sup> On November 1, Japan discussed bilateral assistance with Singapore and Indonesia, which would be supplementary to the assistance from the IMF and other multilateral institutions. This effort of Japan led to additional assistance as the second line of defence (Japan and Singapore contributed US\$5 billion each, the US, US\$3 billion, and others, about US\$3 billion altogether). This brought the total amount of the package to US\$39 billion.

Despite this considerable assistance, far exceeding the US\$17 billion package for Thailand, the rupiah continued to fall throughout the rest of the year. The fall was greatly affected by the Korean financial problems as well as the uncertainty over

<sup>69</sup> Sakakibara, *Nihon to Sekai*, pp 195-196.

<sup>70</sup> *Ibid.* pp.196-197.

<sup>71</sup> *Ibid.* p198.



President Suharto's health. In addition, the closure of the sixteen banks, without providing a safety net, implemented under the IMF agreement, exacerbated the situation by causing a run on banks and panic selling of the rupiah. In January 1998 the problem worsened. The national budget, unveiled on January 6, disappointed the markets, as it was 31 percent expansionary despite the fact that Indonesia was under the IMF austerity policy and the markets regarded this as evidence that Indonesia did not intend to implement the IMF program. Although Suharto and the IMF signed a new agreement on January 15, the government had lost market confidence completely by this time, which led to a further sharp drop of the currency to a level that had been unthinkable previously.

It is debatable what made the crisis in Indonesia more prolonged and more severe than in other countries. For one thing, it was said to be a problem of the political institutions, or Suharto himself. For instance, MacIntyre argues that "the unfettered power of the presidency and the resulting uncertainty about his policy commitments was highly destructive of investor confidence in the context of a regionwide economic crisis."<sup>72</sup> On the other hand, Japan overtly stresses the mismanagement of the IMF. A report of the Subcommittee on Asian Financial and Capital Markets under *Gaitame Shingikai* reads:

the IMF agreement with Indonesia which contained numerous terms addressing structural issues invited questions and criticism...the question remains as to whether these issues had to be addressed in the midst of a currency crisis. The attention of the market was directed toward the resolution of structural issues because this was presented as the central issue in re-establishing confidence. As a result, confidence in the rupiah was further

<sup>72</sup> Andrew MacIntyre, "Political Institution and the Economic Crisis in Thailand and Indonesia," in T. J. Pempel, ed., *The Politics of the Asian Economic Crisis* (Ithaca: Cornell University Press, 1999), p. 155.

eroded when it became clear that the Indonesian government was not prepared to rectify quickly its structural issues.<sup>73</sup>

Sakakibara further argues that the IMF reform plan, particularly the financial restructuring plan, was hastily drawn up without taking into account its economic and social impact, and it completely destabilized not only the financial system, but also the whole economic system.<sup>74</sup>

It should be noted that Japan's discontent with, and distrust of, the IMF policies over the crisis began to increase from around this time. Japan did not accept the IMF policies towards Indonesia despite contributing to the IMF program, and the fact that the IMF policies could not help the crisis situation but rather worsened it, at least in the view of Japanese officials, let Japan begin to criticise the IMF policies publicly, as argued below.

#### **The Korean crisis and Japan's policy towards it**

Following the economic turmoil in Southeast Asia, the South Korean currency, the won, came under attack in the middle of October 1997. Since early 1997, various problems of the Korean economy had come to be recognised publicly, and there had been some collapses among the chaebol. South Korea's large diversified conglomerates. Under the circumstances, South Korea easily became another target of currency speculation. The won dropped sharply, and by early November this process accelerated. The Korean government first sounded out Japan and the US about the possibility of bilateral assistance, but the US quickly made it clear that it did not have any intention to assist the Korean economy bilaterally.<sup>75</sup> Japan also declined the request, since, as Sakakibara argues, the effect of Japanese assistance alone would

<sup>73</sup> See MOF homepage, [www.mof.go.jp/english/tosin/c1a703.htm](http://www.mof.go.jp/english/tosin/c1a703.htm).

<sup>74</sup> Sakakibara, *Nihon to Sekai*, p.200.

<sup>75</sup> *Financial Times*, 15 January 1998.

have been limited: private financial institutions, Japanese, US, and European, were withdrawing funds from South Korea at a rapid speed, and there was no choice but to coordinate with the IMF and the US.<sup>76</sup> On November 21, Korea announced a request for loans from the IMF, and on December 3, it signed the agreement for the US\$55 billion bailout package (later increased to US\$58 billion), which also included US\$10 billion from Japan and US\$5 billion from the US as a second line of defence.

Nevertheless, the agreement with the IMF was little help in regaining the confidence of the markets and the won continued to decline. This was because, in addition to speculation that the situation of South Korea's foreign reserves was worse than reported, foreign bankers questioned the government's commitment to undertaking the IMF reforms.<sup>77</sup> In addition, Sakakibara argues that South Korea's request to the IMF was regarded as an announcement of a sort of defeat, and also the credibility of the IMF program had deteriorated, as the Indonesian reforms did not look to be going well.<sup>78</sup> He also stresses that the IMF's insistence on structural reforms, as was the case for Indonesia, threw the South Korean economy into disorder, and the announcement of the closure of nine merchant banks and the liquidation of two commercial banks, subsequently leading to the failure of the settlement operations in other eight merchant banks, seriously damaged the financial system.<sup>79</sup> By mid December, foreign banks rolled over only 20-30 percent of Korea's short-term debt as each tranche expired.<sup>80</sup> South Korea was on the verge of bankruptcy.

Under the circumstances, South Korea negotiated with the IMF and the G7 countries the accelerated disbursement of the next instalment of assistance funds<sup>81</sup> in return for

<sup>76</sup> Sakakibara, *Nihon to Sekai*, p.203.

<sup>77</sup> *Financial Times*, 15 January 1998.

<sup>78</sup> Sakakibara, *Nihon to Sekai*, p.204.

<sup>79</sup> *Ibid.*, pp.204-205.

<sup>80</sup> *Financial Times*, 15 January 1998.

<sup>81</sup> The IMF decided to finance the total amount of US\$22 billion step by step, not altogether, while demanding severe conditions and trying to extract concessions by stages.

agreeing to a new set of proposals that would speed up economic reforms, including the rapid opening of the financial markets to overseas investors. Simultaneously, the G7 requested the creditor private financial institutions to roll over their loans to South Korea. The negotiations did not go smoothly, but finally on December 24, a new agreement including the acceleration of payments was reached among the IMF, the G7 and South Korea, while a meeting of the creditor foreign banks was held in New York, and the rolling over of their loans to the South Korean banks was granted. Thus South Korea overcame the critical situation.

Japan made every effort to assist in the rescue of the South Korean economy within the framework set by the IMF and tried to make the IMF package successful. A MOF official who was directly involved in this issue at that time argues that, when the negotiations among the IMF, the G7 and South Korea seemed to break down, Japan helped them to find a way to reach an agreement by presenting various schemes, and provided a bridge loan until IMF funds were disbursed.<sup>82</sup> He also writes that MOF officials really tried hard to help South Korea not only because the plight of the South Korean economy was seen to have the potential to affect the Japanese economy negatively, but also because they genuinely wanted to lend a hand to their neighbouring country,<sup>83</sup> which perhaps derived from a sense of responsibility as a regional economic power.

Although South Korea's crisis was abating due to the successful involvement of the private creditor financial institutions, Japan's discontent with the IMF was increasing. As discussed above, Japan criticised the demand for drastic structural reforms in the midst of a crisis, and in fact the initial IMF policies towards South Korea were not able to contain the crisis effectively. In particular, the IMF demanded extensive structural reforms, which included not only financial restructuring and financial opening, but

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<sup>82</sup> Kimura, "Ajia Tsukakiki," p.17.

<sup>83</sup> Ibid. p.17

also trade liberalisation, the restructuring of corporate governance and reforms in labour markets. Aramaki points out that the content of structural reforms became more comprehensive as the crisis spread.<sup>84</sup> Wade and Veneroso also argue that the IMF program for South Korea (and to the same extent, for other East Asian countries, too) goes beyond standard IMF programs.<sup>85</sup> These factors further increased the divergence of opinions between Japan and the IMF with respect to crisis management.

### The New Miyazawa Initiative

Although in the first half of 1998 the exchange rates of most East Asian countries gradually regained some stability and the stock markets showed signs of recovery, these economies were still in a serious state of disarray. In particular, the reconstruction of the financial systems, which had been severely damaged by the IMF programs, and the decline in the growth rates had to be grappled with urgently. It was also pressing to build up social safety nets as a large increase in poverty and unemployment could cause social unrest. Against this background, Japan announced the New Miyazawa Initiative in October 1998.

The New Miyazawa Initiative was a package of various support measures totalling US\$30 billion, half of which was made available for the medium to long-term financial needs for economic recovery in East Asian countries,<sup>86</sup> and the rest was set aside for their possible short-term financial needs during the process of implementing economic reforms.<sup>87</sup> The countries that the initiative was intended for were Thailand, Indonesia, South Korea, Malaysia and the Philippines. It was politically controversial

<sup>84</sup> Aramaki, *Ajia Tsukakiki to IMF*, p.119.

<sup>85</sup> Wade and Veneroso, "Asian Financial Crisis."

<sup>86</sup> The New Miyazawa Initiative reads that East Asian countries affected by the currency crisis need medium to long-term capitals to implement the following policy measures for economic recovery: (1) support for corporate debt restructuring in the private sector and efforts to make financial systems sound and stable; (2) strengthen the social safety net; (3) stimulate the economy (implement public undertakings to increase employment); and (4) address the credit crunch (facilitate trade finance and assistance to small- and medium-sized enterprises).

<sup>87</sup> The short-term facility takes the form of swap arrangements. Japan has established a facility for South Korea (up to US\$5 billion) and that for Malaysia (up to US\$2.5 billion).

to include Malaysia in the program, as the country had overtly criticised the way the IMF conducted the rescue operations and had introduced capital controls while enforcing an expansionary policy domestically in defiance of the IMF. However, the Japanese government decided to support Malaysia within the framework of the New Miyazawa Initiative, holding the view that the Malaysian policy of capital controls was justified in the situation in which Malaysia had been put.<sup>88</sup> Various measures were employed under the New Miyazawa Initiative including not only the traditional direct official financial assistance, such as yen loans through the Export-Import Bank of Japan, but also indirect ways to support East Asian countries in raising funds from international financial markets, such as the provision of guarantees. Furthermore, Japan later established 'a fund' within the ADB, called the Asian Currency Crisis Support Facility (ACCSF), as part of the New Miyazawa Initiative.<sup>89</sup> This facility has the following three instruments: (1) interest payment assistance grants which are applied to interest payment for ADB loans or official or commercial co-financing of ADB-assisted projects; (2) technical assistance grants; and (3) guarantees to co-finance loans with the ADB and bond issues by the affected countries.

It should be noted that the New Miyazawa Initiative implicitly stated that Japan was still aiming at establishing a regional financial mechanism. Although the Initiative itself is a bilateral framework, not the multilateral fund that the AMF was supposed to be, it leaves open the possibility that it could develop into a multilateral framework in the region, like the AMF. Specifically, the MOF officials thought that the above-mentioned ACCSF could lead to a multilateral framework in the future. The New Miyazawa Initiative reads: "ACCSF will be an open facility in which all countries are welcome to take part." Shuhei Kishimoto, the then Director of the Office of Regional Financial Cooperation in the MOF, who was involved in implementing the New

<sup>88</sup> Toshinori Doi, "Ajia tsukakiki to kongo no kadai [the Asian currency crisis and future problems]," *Fainansu* 35:7 (1999), p.27.

<sup>89</sup> The Board of the ADB approved the establishment of the ACCSF on March 23, 1999.

Miyazawa Initiative, explained that Japan was considering that ACCSF could move forward to a regional organisation, although at this stage Japan was the sole contributor.<sup>90</sup> For instance, he continued, it may be possible that some countries could establish the same sort of agreement with the ADB as Japan did, and those separate agreements could be reorganised into an independent regional fund, something like an East Asian regional guarantee institution, which would help East Asian countries issue bonds by giving guarantees.<sup>91</sup> The New Miyazawa Initiative also reads: "it is hoped that in the long run the establishment of an international guarantee institution with a prime focus on Asian countries will be seriously considered." This confirms that Japan's motive behind the New Miyazawa Initiative involved the creation of some kind of regional framework. Notably, Kishimoto further maintains that this East Asian guarantee institution should develop into the AMF in the future.<sup>92</sup>

The New Miyazawa Initiative also indicates the change in the nature of Japanese foreign policy in the sense that Japan overtly broadcasted its policies, rather than keeping a low-profile, as it had done in the case of the AMF proposal. In fact, the announcement of the New Miyazawa Initiative was quite effective, and not only regional leaders, but also the public in the region, have become aware of the Japanese assistance to the region. A MOF official said that the Japanese government tried to publicise its assistance as much as possible through the local media, which had not been done before.<sup>93</sup> Furthermore, the Japanese bureaucrats were more positively and assertively involved in the implementation of the assistance given under the New Miyazawa Initiative than in the past. Japanese aid policy is generally based on a request from recipient governments (*yosei shugi*). Orr argues that "[as] the aid program was initiated in Southeast Asia, the *yosei shugi* approach was undertaken to allay fears

<sup>90</sup> Shuhei Kishimoto, "Shin miyazawa koso no shimei to ajia tsuka kikin [the task of the New Miyazawa Initiative and the AMF]," *Fainansu* (1999), pp.42-43.

<sup>91</sup> *Ibid.* p.43.

<sup>92</sup> *Ibid.* p.43.

<sup>93</sup> Interview with a MOF official (International Bureau), May 12, 2000.

of the recipients of an incipient reemergence of Japanese imperial policy."<sup>94</sup> However, the Japanese officials were more actively engaged in the implementation of the New Miyazawa Initiative. Japan dispatched emergency missions to the five countries that were the beneficiaries of the Initiative from the end of October to the end of December, and they discussed with the recipient governments how to implement the economic reconstruction plans through the New Miyazawa Initiative.<sup>95</sup> Also, after the programs began to be implemented from the middle of December, Japan remained involved in discussions with the recipients.

The New Miyazawa Initiative was largely welcomed and appreciated not only by the recipient countries, but also the US, which had opposed the AMF proposal a year before. The US support for the New Miyazawa Initiative was partly because the Initiative was a bilateral scheme, which in a sense could be regarded as an extension of past Japanese ODA policy. In addition to that, with the spread of the crisis beyond East Asia to Russia and further to Latin America, the claim of the US and the IMF that the economic and social systems peculiar to East Asia, such as crony capitalism, had caused the crisis was losing support. Furthermore, facing the need to cool down the instability in Latin America and to prevent the crisis from expanding further whatever the cost, the US policy seemed to shift from imposing structural reforms on the affected countries to stabilisation through strengthening public credit lines.<sup>96</sup> Japan also sounded out China about the New Miyazawa Initiative beforehand, as Japanese officials thought that China's understanding was important to the success of the proposal. In fact, Sakakibara was sent to Beijing in secret to explain Japan's

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<sup>94</sup> Orr, *The Emergence of Japan's Foreign Aid Power*, p.60.

<sup>95</sup> Doi, "Ajia Tsukakiki," p.28.

<sup>96</sup> Masayuki Tadokoro, "Asian Monetary Crisis and Japanese Policy Reactions," paper prepared for presentation for What is to be Done?: Global Economic Disorder and Policies for a New Financial Architecture in the Millennium, University of Amsterdam, February 3-5, 2000, p.11.



proposal.<sup>97</sup>

In the process of drafting and implementing the New Miyazawa Initiative, not only the MOF, but also the MITI and the MOFA were heavily involved. A MOF official states that there were close exchanges of opinions and discussions with the MITI and the MOFA about making the proposal.<sup>98</sup> This means there were various motivations involved behind Japan's proposing the scheme.

First, the MOF and the MITI had to address pressing issues to do with the condition of the Japanese economy. As discussed earlier, due to the increasing economic interdependence between Japan and the East Asian countries, the instability of the regional economy was a considerable blow to Japan's already sluggish economy. Green points out that one driving force behind the New Miyazawa Initiative was the desperate situation of the Japanese banks, whose loans were tied up in long-term FDI that affected the Japanese trading, construction and auto companies that had large exposure to the stagnant Japanese economy.<sup>99</sup> Also, in the words of an official from the MOF, the New Miyazawa Initiative was one part of a broader set of measures to resolve the financial turmoil in Japan.<sup>100</sup>

Second, the New Miyazawa Initiative can be considered as a reflection of the growing importance of the political and diplomatic relations with regional countries, as already discussed. After giving up the proposal for the AMF and with the deepening of the regional economic problem, East Asian countries became sceptical about Japan's commitment to the region as well as its ability to take the lead there. This could have seriously undermined Japan's overall East Asian relations, which it had made such an effort to cement during the previous decades. The New Miyazawa Initiative was aimed

<sup>97</sup> *Nihon Keizai Shinbun*, 1 December 1998.

<sup>98</sup> Interview with a MOF official (International Bureau), May 12, 2000.

<sup>99</sup> Green, *Japan's Reluctant Realism*, pp.254-255.

<sup>100</sup> Cited in Green, *Japan's Reluctant Realism*, pp.254-255.

to and actually was able to change this perception and maintain, or probably strengthen, Japan's influence in the region<sup>101</sup>, which could, in turn, enable Japan to take initiative there. It could be argued that the size of the sum of itself, i.e. US\$30 billion, showed Japan's large commitment to East Asia and its recovery, particularly given the situation that Japan had economic problems domestically, and that it had already committed US\$43.5 billion before announcing the New Miyazawa Initiative.<sup>102</sup> Eventually, Japan's total assistance offered in response to the East Asian financial crisis reached approximately US\$80 billion by March 1999.<sup>103</sup> This is an extraordinary contribution even when the size of the Japanese economy is taken into account. A MOFA official argues that Japanese foreign policy has been criticised sometimes as merely chequebook diplomacy but without this money countries could have collapsed. East Asian countries realised that no country or organisation, other than Japan, would pay such a large sum for regional matters,<sup>104</sup> and their relations with Japan improved considerably.

Third, the New Miyazawa Initiative can be seen as a reflection of Japan's discontent with IMF policies. The IMF was, in the view of Japanese officials, particularly MOF officials, too obsessed with market mechanisms and imposed on countries hasty, inappropriate, measures for structural reforms, which sacrificed economic stability and resulted in social disorder. After the strict economic restructuring plans were implemented in accordance with the IMF programs, the economies of the crisis-hit countries suffered from severe recession. The New Miyazawa Initiative was largely aimed at revitalising these economies and to help them get out of the severe economic

<sup>101</sup> Interview with a MOF official (International Bureau), May 12, 2000.

<sup>102</sup> The breakdown of this is: contribution to the international assistance package harmonised with the IMF (US\$19 billion), assistance for private sector activities, facilitation of trade financing (approximately US\$22.5 billion), assistance for economic structural reforms, human resources development (approximately US\$2.3 billion) and assistance to the socially vulnerable (approximately US\$0.15 billion). (MOFA homepage. [www.mofa.go.jp/policy/economy/asia/crisis0010.html](http://www.mofa.go.jp/policy/economy/asia/crisis0010.html))

<sup>103</sup> See MOFA homepage. [www.mofa.go.jp/policy/economy/asia/crisis0010.html](http://www.mofa.go.jp/policy/economy/asia/crisis0010.html).

<sup>104</sup> Interview with Masahiro Kohara (Director, Regional Policy Division, Asian Affairs Bureau, MOFA), May 12, 2000.

downturn and resume healthy economic development by creating employment as well as expanding their social safety nets. A Japanese official argues that the New Miyazawa Initiative was significant for its feature of quick disbursement, and for trying to get some results straight away and to maintain employment during the process of economic restructuring.<sup>105</sup> It can be argued that what the Japanese officials believed to be necessary was to give these countries time to take a breath and regain market confidence. In this context, the New Miyazawa Initiative can be regarded as Japan's tacit criticism against the IMF policies.

### Conclusion

This chapter has discussed how Japan was positively engaged in resolving the East Asian financial crisis. Japan's contribution to organising the Thai rescue package involved a great deal of diplomatic effort, as well as contributing funds, and the subsequent proposal of the AMF was an ambitious attempt to create a new regional framework aimed at financial stability in the region. Also, the Japanese policymakers were positively and assertively involved in proposing and implementing the New Miyazawa Initiative, which represents a departure from the traditional aid policy-making, such as *yosei shugi*. Furthermore, Japanese policymakers became able to articulate Japan's stance overtly and to criticise IMF policy towards the crisis publicly, although on the whole Japan tried to cooperate with the IMF and the US. These proactive policies of Japan have continued and have led to the current momentum in financial regionalism, which is one of the main subjects of the next chapter. Furthermore, this chapter also highlighted the specific policy style characteristic to Japan, namely its low-profile and incremental style of policy, as it tried to establish a financial framework in the region by taking into account the long-term perspective. It has been argued that the AMF proposal was not necessarily a failure from the

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<sup>105</sup> Interview with a MOF official (International Bureau), May 12, 2000.

viewpoint of Japanese policymakers, nor was the Manila Framework merely a face-saving effort. Moreover, the New Miyazawa Initiative has the potential to lead to a regional framework, possibly the AMF. These points are also relevant for the discussions on the style of Japanese foreign policy in Chapter 6.

## CHAPTER 5

### Japanese Policy Towards East Asian Regionalism

The previous chapter documented Japan's interest in financial regionalism in East Asia. This chapter expands the subject from the financial area to East Asian regionalism in general, as the last case study of the thesis. It analyses how East Asian regionalism has developed, particularly since the late 1990s, as well as Japan's role and the background factors behind this new trend, including the impact of the East Asian financial crisis. Building on the argument developed in the previous chapters, this chapter demonstrates Japan's increasing initiative in the region by looking at how Japan has been involved in a new regional project; to support this claim, it brings to bear new empirical evidence, which has not received sufficient scholarly attention so far. Furthermore, the way in which Japan has contributed to the development of East Asian regionalism has important implications for the discussion about the style of Japanese foreign policy in the next chapter.

As discussed in Chapter 2, for the last few decades, specifically since the early 1990s, there have been two contesting conceptions of the Asian region, namely Asia Pacific and East Asia. The former was more predominant until the mid-1990s, while the latter, specifically the idea of the EAEC, whose identity is constructed around the opposition between Asia and the West, has shown remarkable resilience in the face of strong US opposition in the early 1990s. Regions are cognitively constructed, and the concept of East Asia, which "is an exercise in invention, seen by leaders, who advance such notions, as a way of stemming the intrusion of Western cultural and moral values systems without rejecting the dynamic aspects of Western economic and technological modernization,"<sup>1</sup> has had consistent appeal. In fact, since the latter half of the 1990s, there has been a shift of emphasis from Asia Pacific, or APEC, to East Asia, or EAEC,

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<sup>1</sup> Richard Higgott and Richard Stubbs, "Competing conceptions of Economic Regionalism," p.530.

and this chapter examines the sources of this change.

### **The initial development of the ASEAN + 3 meeting**

East Asian regionalism has developed out of ASEAN's invitation of three Northeast Asian countries, China, Japan and South Korea, to its informal and formal meetings. The first meeting of what is now called 'ASEAN + 3' was held in December 1997 in Kuala Lumpur. It was actually a meeting among the same countries that constitute the EAEC, and the leaders of these countries had already met in February 1996 for the first time as part of the ASEM process.<sup>2</sup> Despite the symbolic meaning of the ASEAN + 3 framework, the meeting in Kuala Lumpur did not attract much attention from the press or the public. Even the US, who had been a strong opponent of the EAEC, did not interfere. Instead, there was actually an atmosphere of gloom and tension, as the meeting took place in the midst of the financial crisis.

Whilst holding the meeting of the East Asian leaders in itself was highly significant, there was little substance in the first ASEAN + 3 meeting. It was reported that issues concerning the currency crisis occupied most of the agenda.<sup>3</sup> Although the joint statements of the meetings between ASEAN and each of the three additional countries, China, Japan and South Korea, were publicized, that of the ASEAN + 3 meeting itself was not announced. Also, the leaders did not agree at that stage that this sort of meeting would be held on a regular basis, although this summit meeting later evolved into the current trend of regional cooperation in East Asia, as discussed in the following.

The initial impetus for the Kuala Lumpur meeting can be traced back to the beginning

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<sup>2</sup> The foreign ministers' meeting and that of the economic ministers were also held in July and September 1996 respectively. Also, East Asian senior officials' meetings (SOM) under ASEM have been held as needed in order to coordinate the East Asian positions for ministerial and summit level meetings.

<sup>3</sup> *Sanki Shinbun*, 16 December 1997.

of 1997, to the visit of the then Japanese Prime Minister Ryutaro Hashimoto to ASEAN countries, when Japan proposed holding regular talks between the Japanese and the ASEAN leaders. This visit to ASEAN had particular significance to Japan, as Hashimoto was aiming at a diplomatic breakthrough in the trip, and revealed during his speech in the visit the 'Hashimoto Doctrine' that would replace the Fukuda Doctrine as the basis of Japanese policy towards ASEAN. Hashimoto emphasised the importance of ASEAN in Japanese foreign policy and the necessity of 'broader and deeper exchanges between Japan and ASEAN at top and all the other levels'. The proposal to hold regular meetings between Japan and ASEAN was the focal point of his speech.

However, the response of ASEAN countries to this proposal was not enthusiastic. Indonesian President Suharto was reportedly positive, but the Malaysian Prime Minister did not give a definite answer to Hashimoto.<sup>4</sup> Tanaka argues that ASEAN was cautious about Hashimoto's proposal because ASEAN countries wondered what their relations with China would be like if Japan alone had a regular summit with ASEAN.<sup>5</sup> Instead of giving Japan a direct answer, ASEAN announced at the end of May 1997 that it would invite the leaders of three countries, China, Japan and South Korea, to its informal summit scheduled in December of 1997. The three countries accepted the invitation, and the meeting was held as planned.

What has to be noticed here is the fact that, although the current enthusiasm for East Asian cooperation is seen to have grown out of the financial crisis in 1997, the first meeting of the ASEAN + 3 countries, which became a stepping stone for the recent trend in East Asia, was set up before the crisis occurred. What this implies is that, while the crisis has been a driving force in the development of East Asian regionalism

<sup>4</sup> *Mainichi Shinbun*, 12 January 1997.

<sup>5</sup> Akihiko Tanaka, "Japan and Regional Integration in Asia-Pacific," paper presented at the 40<sup>th</sup> Annual Convention of the International Studies Association, Washington, D.C., February 16-20, 1999, p.7.

as discussed later, regionalism in East Asia has been developing in a larger context. It could be argued that the proposal for the formation of the EAEC, which did not receive an enthusiastic response in the early 1990s, was not in fact abandoned completely, and on the contrary the idea has gradually become more acceptable to the countries of East Asia. In other words, the concept of East Asia came to be considered as the basis for cooperation throughout the 1990s. Tanaka points out that as early as 1995, when the question of who should be the Asian members of ASEM was considered, the ASEAN nations and China, Japan and South Korea were regarded as being the 'natural' representatives of the Asian part of ASEM.<sup>6</sup> In short, there have been some underlying forces to push the trend of East Asian regionalism forward since the early 1990s, and the crisis in 1997 just accelerated the process.

One of the forces behind this trend has been the increasing economic interdependence in the region, which has made regional countries more aware of each other's importance. The economic 'regionalisation', which has been progressing since the 1980s, has made regional leaders think about the necessity of cooperating with each other for stability and further economic prosperity. Ohba argues that the emergence of East Asian regionalism in the form of ASEAN +3 was based on the confidence of the East Asian countries backed by the increasing independence of their economies and the economic boom in East Asia.<sup>7</sup> As discussed later, the crisis has strengthened the sense of closeness of the economies in East Asia.

In addition, the region's interest in East Asian cooperation is, to a large extent, a reaction to stagnation in APEC. There are various reasons for this stagnation. As APEC has developed, the various discords among member countries have increased, particularly with regard to the speed and extent of the institutionalisation of APEC as well as the imposition by the US of its liberal economic norms and social standards.

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<sup>6</sup> Tanaka, "Japan and Regional Integration," p.6.

<sup>7</sup> Ohba, "Chiikishugi," p.276.



Some East Asian countries were concerned about the US dominance of APEC, which has made them resist Washington's agendas. Ellis Krauss argues that, as APEC rests on several different interests of its major players and is pulled in different directions simultaneously, if it goes primarily in just one of these directions, it will lose the interest and cooperation of the other players.<sup>8</sup> Also, several MOFA officials note that it has become difficult to discuss a complicated issue and reach an agreement in APEC due to the increasing number of member countries (21 countries at this moment) particularly after the inclusion of the Latin American countries and Russia.<sup>9</sup> In addition, some argue that now that the WTO deals with the global rules of trade between nations, the APEC way of advancing liberalisation voluntarily has become outdated.<sup>10</sup> Finally, Krauss points out that the East Asian financial crisis moved the attention and need to respond from the trade and development arena to the financial arena and, as APEC is not really an organisation set up to deal with financial matters, it became something of a side show.<sup>11</sup> It could be argued that all these factors have contributed to a loss of impetus in APEC, if not its virtual disintegration, and have motivated East Asian policymakers to turn to alternative options.<sup>12</sup> In fact, APEC revealed its limitations as a regional mechanism to provide stability in the region during the crisis.

Japan's participation in the first ASEAN + 3 meeting is relevant for the change of course in Japanese foreign policy explored in this thesis. Japan had not supported the EAEC proposal, and this was one of the main reasons why the EAEC could not be

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<sup>8</sup> Comment from Ellis Krauss by email to the author in December 2000.

<sup>9</sup> Interviews with Naoto Hisajima (Deputy Director, Aid Policy Division, Economic Cooperation Bureau, MOFA), May 11, 2000, and with Katsuhiko Takahashi (Deputy Director, Developing Economies and APEC Division, Economic Affairs Bureau, MOFA), May 16, 2000.

<sup>10</sup> Fukushige Kimura, *Nihon Keizai Shinbun*, 31 October 2000, and Ohba, "Chiikishugi," pp. 278-279.

<sup>11</sup> Comment from Ellis Krauss by email to the author in December 2000.

<sup>12</sup> Even Japanese senior officials in the MOFA and the MITI admit that impetus for APEC has been declining. (Interviews with MOFA officials [Tutomu Himeno (Director, the Second International Economic Affairs Division, Economic Affairs Bureau), May 17, 2000 and Katsuhiko Takahashi (Deputy Director, Developing Economies and APEC Division, Economic Affairs Bureau), May 16, 2000], and a MITI official [Akira Kawamoto (Director, International Trade and Research Office, International Trade Policy Bureau), May 26, 2000])

realised during the first half of the 1990s. In addition to the other factors that have underlain recent East Asian regionalism, the decision of Japan to participate in the meeting is evidence of the increasing importance of East Asia, particularly ASEAN, in Japanese foreign policy for political reasons, as discussed in Chapter 2. Japan has assumed a more active political role, and East Asian regionalism is one area where this can be demonstrated most easily. Also, as discussed later, Japanese participation in the ASEAN +3 meeting reflects Japanese policymakers' evaluation that East Asia has to reinforce its own frameworks to prepare for a possible US withdrawal from the region in the long-term due to the end of the Cold War. In short, Japanese policymakers think that the framework of East Asia regionalism is very useful for Japan, considering the political conditions influencing post Cold War Japan.

In any case, it would have been too difficult for Japan to turn down the invitation from ASEAN without causing offence. As mentioned before, Hashimoto and the Japanese government took the ASEAN relations very seriously. His visit to ASEAN was more than merely a diplomatic visit, and the invitation from ASEAN to its informal summit in December was in a sense a response to Hashimoto's proposal during the visit. Also, ASEAN announced that it would have meetings with each of the three countries, China, Japan and South Korea, separately from the meeting of the ASEAN + 3 countries, responding to Hashimoto's request.<sup>13</sup> A MOFA official stated that Japan did not have any hesitation to attend the meeting, and it accepted ASEAN's proposal in May immediately.<sup>14</sup>

Furthermore, other conditions were also favourable to Japan's participation in the meeting. When the Malaysian Prime Minister proposed the EAEC, Japan was cautious about the attitude of other regional countries, as some of them were opposed to the

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<sup>13</sup> The meeting between the Japanese and ASEAN leaders was the first one in ten years; it was twenty years ago that a joint statement from them was adopted.

<sup>14</sup> Interview with a MOFA official (Asian and Oceanian Affairs Bureau), March 29, 2001.

idea of the EAEC. However, this time there was a consensus within ASEAN, as the invitation to the commemorative Kuala Lumpur summit that would mark its thirtieth anniversary came from ASEAN as a group. In addition, as a diplomatic signal to other countries, the meeting was less problematic than convening a conference for setting up the EAEC or having an East Asian summit. The three northern countries were invited to what could be presented as a regular ASEAN summit, thus avoiding causing offence to non-Asian countries, particularly the US. Moreover, it seems that the idea of East Asian cooperation has been gaining ground among the Japanese policymaking elite. As touched on before, some of the MOF officials had supported the EAEC from an early stage, but the support has been expanding, and even the MOFA, which wants to prevent APEC from losing in importance or status, has not been entirely negative about East Asian cooperation, although the idea of Asia Pacific cooperation remains important. As discussed below, Japan's interest in East Asian regionalism has become more conspicuous since then.

It has to be noticed that by participating in the ASEAN + 3 meeting Japan did not express a decision to disregard APEC, or to exclude the US from the region. On the contrary, they want to keep the US in the region as much as possible. What they are trying to do is to establish a new framework to complement the traditional frameworks in East Asia, and to have multiple options, so that they can pursue Japan's political and economic interests in the post Cold War era. It could be also argued that they are searching for a new regional framework within which the post Cold War problems of Japan could be addressed.

#### **The second meeting of ASEAN + 3 in December 1998**

Although the leaders of the ASEAN + 3 countries did not promise during the first meeting to meet on a regular basis or to have the second meeting in the next year, the leaders of the same countries got together in December 1998 in Hanoi. This time the

meeting was more fruitful and showed that there was a growing tendency towards closer economic cooperation among the participating nations. The economic issue was again the main focus of the meeting, as East Asian countries were still struggling with the after-effects of the crisis, but it is noteworthy that ASEAN clearly demonstrated its interest in closer cooperation with the three northern countries, and proposed to hold an ASEAN + 3 summit once a year. The northern three agreed to establish a working group to consider the proposal from ASEAN. This means that there was a degree of consensus among these countries to hold a regular annual meeting.

As for Japan, the then Prime Minister Keizo Obuchi gave an important policy speech titled 'Towards the Creation of a Bright Future for Asia' in Hanoi before the summit. It is particularly noteworthy that he stated in his speech that this summit meeting among the ASEAN + 3 countries aimed at realising 'region-wide cooperation in East Asia'. This was indeed the first speech in which the Japanese leaders referred to East Asian, as opposed to Asia Pacific, cooperation on an official occasion, and can be regarded as Japan's endorsement of the growing trend of East Asian regionalism. Obuchi also argued that in order to uphold this objective the network of dialogues among the three countries of China, Japan and South Korea must be strengthened as well.

Furthermore, China proposed to hold a regular forum of the Finance Deputies of the ASEAN + 3 countries to exchange opinions about financial issues. It is important to note the change in China's stance towards regionalism. Ruan Wei, an assistant manager of Norinchukin Research Institute, points out that, although China had been reluctant to form alliances with other countries since it fell out with the former Soviet Union in the 1960s, 1997 marked a turning point in its policy, and it is now engaged in forming regional frameworks.<sup>15</sup> She identifies several factors behind China's inclination towards regionalism. First, having witnessed the chain reaction of the East

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<sup>15</sup> Ruan Wei, "Japan should work with, not against," Asahi Shinbun homepage, [www.asahi.com/english/asianet/column/eng\\_020322.html](http://www.asahi.com/english/asianet/column/eng_020322.html).

Asian financial crisis, China understands that a stable external environment is indispensable for its economic growth. Second, it recognises that most major countries are participating in free trade agreements. Third, it understands that the stability and advancement of the ASEAN economy leads to increased Chinese exports to the region. Fourth, it hopes to dispel the anxiety of its neighbours about the competitive pressures created by the Chinese economy by promoting regionalism and encouraging other participants to jointly reap the benefits of trade and cooperation. Finally, it hopes that forming a regional framework with ASEAN would pre-empt any US attempts to besiege China.<sup>16</sup>

ASEAN was positive about China's idea of holding a forum of the Finance Deputies, and its response was very quick. ASEAN soon invited the Deputies of the three northern countries to a meeting with the ASEAN counterparts in March 1999, which was followed by the first Finance Ministers' meeting among these members in April of the same year. These meetings of the Finance Ministers and Deputies were a significant step towards further cooperation in East Asia. A Finance Ministers meeting was held again in the subsequent year, when there was important progress in terms of East Asian financial regionalism, as discussed later, although there was little substance in the first 1999 meeting itself.

#### **The Mission for the Revitalisation of the Asian Economy (The Okuda Mission)**

In June 1999, two years after the currency crisis had begun, and East Asian countries were starting to show signs of recovery, Prime Minister Obuchi announced that he was going to dispatch a mission, called the Mission for the Revitalisation of the Asian Economy (The Okuda Mission), to six East Asian countries (South Korea, Vietnam, Thailand, Malaysia, Indonesia and the Philippines) in August. The mission consisted of eight members, including business leaders from Japanese leading companies and

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<sup>16</sup> Ibid.

influential academics, with Hiroshi Okuda, Chairman of the Board of Toyota Motor Corporation and Chairman of the Japan Federation of Employers' Association (*Nikkeiren*) as the head of the mission.<sup>17</sup> The aim of the mission was to study the issues and needs facing East Asian countries and to identify, in the light of the crisis, the issues that East Asia must address to safeguard its prosperity in the twenty-first century and the role that Japan has to play in addition to the assessment of Japan's assistance to the countries hit by the crisis.

It is worth discussing the contents of the report of the mission briefly because the mission was dispatched at the direct request of the Prime Minister, and its recommendations were taken into account in later regional policy making, although it was not an official statement of the Japanese government. In fact, some of the recommendations took shape as concrete policies, such as the Chiang Mai Initiative. Also, a large part of this report is directly reflected in the Obuchi plan that was announced during the third ASEAN + 3 summit in November 1999, and was highly appreciated by ASEAN countries, as discussed later.

In addition, it could be argued that the emphasis on East Asia and East Asian cooperation in the report indicates that the concept of East Asian cooperation had become more broadly accepted within Japan. The members of the mission not only included influential private people and academics, but also a number of high-ranking officials of the four prestigious ministries of the MOFA, the MITI, the EPA and the MOF as observers. The report was the result of their intensive discussions based on interviews, amounting to almost 200, with East Asian leaders, high officials and business leaders.

<sup>17</sup> The rest of the members are: Tasuku Takagaki (Chairman of the Board, the Bank of Tokyo-Mitsubishi, Ltd.), Toyoo Gyoten (President, Institute for International Monetary Affairs), Jiro Aiko (Advisor, Sony Corporation), Taizo Watanabe (Professor, University of Aoyama Gakuin), Toshihiko Fukui (Chairman of Economic Research Center, Fujitsu Research Institute), Yukio Okamoto (President, Okamoto Associates, Inc.) and Motoshige Ito (Professor, University of Tokyo).

First of all, the report clearly states the necessity to build a new relationship with East Asian countries. It argues that, although the currency crisis was an unfortunate event, it clearly showed where reforms were needed, and the fact that the crisis hit many East Asian countries almost simultaneously indicates that East Asian countries are developing into a community; they are no longer just a collection of individual countries. More significantly, the report also reads that the formation of regional economies that has taken place in Europe and North/South America needs to take place in East Asia as well, although the form may be different. Furthermore, the report suggests, in making a regional effort to address past failures, which caused the crisis in 1997, Japan's larger role will bring substantial benefits to Japan as well as East Asian countries.

Subsequently, the report makes specific recommendations in the areas of people, goods, money and information. With respect to people, it emphasises three points: (1) the cooperation for human resources development in East Asia; (2) the opening of Japan to the East Asian people; and (3) the assistance for the socially vulnerable. As far as goods are concerned, the report addresses the issue of what is necessary for the development of manufacturing in the region as well as what roles Japan can take on, including the importance of opening Japanese markets. Furthermore, it is noteworthy that the report supports the idea of regional free trade agreements, arguing that a free trade agreement is one way to strengthen and deepen economic relations between Japan and the East Asian countries, particularly South Korea and ASEAN. It suggests that the talks for a bilateral free trade agreement with South Korea can be supplemented by studies of similar agreements with Singapore and other countries that are enthusiastic about the idea.

In the field of money, the report suggests that five issues should be addressed: (1) the stabilisation of East Asian currencies; (2) the internationalisation of the yen; (3) the

development of East Asian bond markets; (4) the establishment of early warning systems to prevent currency crises in the future; and (5) the standardisation of corporate accounting according to an international criteria. The report holds that appropriate foreign exchange regimes and concrete schemes for emergency regional financing should be discussed at regional forums such as the ASEAN + 3 meeting. This point was taken up in Japan's initiative in the Chiang Mai Initiative.<sup>18</sup> Finally, regarding information, the report made various recommendations including the enhancement of information networks in East Asia.

### **The third meeting of ASEAN + 3 in November 1999**

The third summit in November 1999 made great strides forward for East Asian regionalism. A joint statement on East Asian cooperation was announced by the participating nations for the first time, and the heads of the countries pledged further deepening and broadening of cooperation. They stressed the importance of cooperation particularly in the following eight areas: (1) economic cooperation, including trade, investment and technology transfer; (2) monetary and financial cooperation; (3) social and human resources development; (4) scientific and technical development; (5) culture and information; (6) development cooperation; (7) politics and security; and (8) trans-national issues. It is noteworthy that they agreed to expand cooperation to the political and security fields and beyond economic issues. In order to realise cooperation in these areas, the leaders instructed the relevant ministers to oversee the implementation of the joint statement through existing mechanisms. Japan also proposed to hold an ASEAN + 3 foreign ministers meeting, and the joint statement included a commitment to this. In addition, a meeting of the leaders of the three countries, China, Japan and South Korea, separately from the ASEAN + 3 meeting,

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<sup>18</sup> Shuhei Kishimoto, "Ajia keizaisaisei misshon hokoku no igi to jinzaishien [the significance of the report of the Mission for the Revitalisation of the Asian Economy and Human Resources Development]," unpublished paper.



was held for the first time in history during the session.<sup>19</sup>

It should be noted that a further shift in Japan's stance concerning regional cooperation was observed during the year between the second and third meetings. This is reflected in the MOFA's account of Japan's objectives at the ASEAN + 3 summit. With respect to the second meeting in 1998, the MOFA stressed the importance of the meeting for strengthening the dialogues between Japan and ASEAN. However, the Ministry evaluated the 1999 meeting, which it called a virtual 'East Asia Summit', as a valuable opportunity for the Japanese Prime Minister to build up relations with his counterparts in East Asian countries, who were important economic as well as political partners for Japan. In addition, the MOFA formally declared that Japan had the intention to play a positive role to advance East Asian cooperation in accordance with the Joint Statement, and that Japan attached great importance to the ASEAN + 3 summit as a meeting designed to enhance a sense of solidarity among East Asian countries and to advance regional cooperation. In short, the MOFA's interest in East Asian cooperation became much more explicit at the 1999 summit than the previous year.

This shift in the MOFA's stance on regional cooperation can also be observed in the Blue Book, which is Japan's official account of its foreign policy by the MOFA. While the 1999 Blue Book, which deals with policies implemented during 1998, does not even refer to East Asian cooperation or the ASEAN + 3 summit at all, there is an independent section titled 'Japan-ASEAN relations and regional cooperation in East Asia' in the 2000 Blue Book. The 2000 Book acknowledges that, taking into account lessons from the crisis, a trend to strengthen regional cooperation in East Asia has grown among the countries concerned, and that it is important to implement the policies proposed in the Joint Statement of the 1999 ASEAN + 3 summit. These

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<sup>19</sup> When the Japanese Prime Minister proposed this meeting in the previous year, China was reported to take a very cautious attitude, but this time the South Korean President, Kim Dae Jung, played a buffer role between the two countries, which led to the realisation of the meeting.

changes in the stance of the MOFA are indeed surprising, considering its indecisive attitude towards the EAEC in the early 1990s.

In addition to Japan's increasing interest in East Asian cooperation, Japan has been willing to take on a larger role beyond economic assistance. During the ASEAN + 3 summit in 1999, Prime Minister Obuchi announced 'a comprehensive plan for enhancing human resources development and human resources exchanges in East Asia', which President Estrada of the Philippines, the host of the meeting, suggested calling the Obuchi Plan. The plan was based on the report of the Okuda Mission, and Obuchi explained that, given that the East Asian economies had largely overcome the crisis and were on track for recovery, the plan focused on people for the purpose of working together to prevent the reoccurrence of a future crisis and to build a foundation for medium to long term stable economic development. In addition, Obuchi said that Japan was willing to advance the dialogue between Japan and ASEAN, which was one of the major economic and political partners for Japan, while stressing that Japan was prepared to enhance and expand its assistance to ASEAN in order to redress the economic disparities within ASEAN and enhance its organisational capacity. These efforts indicate that, while Japan made substantial financial contributions in order to address the crisis, it also committed itself to the region by expressing publicly what it intended to do for it in the future, as the crisis was dying down.

#### **The Chiang Mai Initiative**

In response to the joint statement on East Asian cooperation issued in November 1999, there was a further move to advance cooperation in the financial area. The third Finance Deputies' meeting of the ASEAN + 3 countries was held in March 2000, when they agreed to consider a more concrete framework for financial cooperation to

prepare for any possible future financial crisis.<sup>20</sup> While thinking that a new permanent fund would be a remote possibility,<sup>21</sup> they looked at expanding the existing currency swap arrangements in the immediate future. These arrangements had been set up among the five ASEAN founding countries of Indonesia, Malaysia, the Philippines, Singapore and Thailand (totalling about US\$200 million), but had the potential to include China, Japan, South Korea and the other ASEAN countries and this extension was agreed.<sup>22</sup> Subsequently the ASEAN Finance Ministers' meeting endorsed this decision of the ASEAN + 3 Deputies.<sup>23</sup> The ASEAN Ministers also backed the Deputies' decision to examine a possible mechanism to facilitate regional surveillance in East Asia.

On May 6, the ASEAN + 3 Finance Ministers announced the Joint Ministerial Statement after their second meeting in Chiang Mai, backed the decision of their Deputies, and endorsed efforts to strengthen East Asian financial cooperation. The statement reads: "we agreed to strengthen our policy dialogues and regional cooperation activities in, among others, the areas of capital flow monitoring, self-help and support mechanisms and international financial reforms." With respect to self-help and support mechanisms, they formally proposed region-wide swap arrangements, which was dubbed the Chiang Mai Initiative, "to supplement the existing international facilities". This fell short of the establishment of a fund as Japan had originally wished

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<sup>20</sup> The second meeting was held on 25 November 1999 during the ASEAN + 3 summit, and the Deputies agreed to advance a regional cooperation mechanism. On the same day, the ASEAN Finance Ministers' meeting issued a joint statement that incorporated the following clause: "[w]e are considering with them [the East Asian dialogue partners] ways of cooperation by strengthening the institutional capacity for consultation and collaboration on monetary, fiscal and financial issues, including policy dialogue among the East Asian countries."

<sup>21</sup> The Singapore Finance Minister was reported to comment that the idea of a permanent Asian monetary fund has not been entirely forgotten. (*Agence France-Presse*, 26 March, 2000) As for Japanese MOF officials, they also had the AMF in their minds, as discussed shortly.

<sup>22</sup> Under the arrangement, a portion of each country's foreign reserves is pooled in a facility to prepare for possible short-term cash shortages in the balance of payments of any member.

<sup>23</sup> The relevant section of the joint statement of the ASEAN Finance Ministers reads: "[r]ecognising the need for the availability of financial resources in times of crisis, they [the ASEAN + 3 Finance and Central Bank Deputies] agreed to conduct a study on the modalities and mechanisms for a regional financing arrangement to supplement the existing international facilities."

in 1997. Its main limitations are that it is a bilateral framework, as against the multilateralism of the AMF, and it cannot be put into effect automatically during a crisis: to be activated negotiations have to take place between a recipient and a supplier nation.<sup>24</sup> Also, it is not large enough as a regional emergency financial mechanism.<sup>25</sup> Nevertheless, It can be argued that the swap arrangements were indeed a significant step forward for financial cooperation in East Asia. *Financial Times* writes: "[the agreement on the swap arrangements] has advanced regional co-operation well beyond pre-crisis levels. It cements growing and valuable links between east and south-east Asia."<sup>26</sup> Also, the ASEAN + 3 Finance Ministers decided to meet each other twice a year on a regular basis, which reinforced the expectation of further cooperation in East Asia.

Japan, who took the initiative behind the scenes,<sup>27</sup> conducted negotiations with the countries concerned very cautiously, in order to avoid falling in the same trap as they had done with the AMF. In particular, the MOF took great pains not to give the US grounds for the suspicion that Japan was trying to exclude the US from East Asian matters.<sup>28</sup> The Japanese Finance Minister emphasised at the press conference just after the ASEAN + 3 Finance Ministers Meeting that the initiative was not linked to the AMF, a gesture that can be regarded as trying to prevent causing concern to US about Japan's intentions. The ASEAN countries and Korea backed Japan's proposal overall, and China also showed a very positive attitude this time, quite different from its stance

<sup>24</sup> Interview with Eisuke Sakakibara (Former MOF Vice Minister), September 18, 2001.

<sup>25</sup> Japan has reached substantial agreements for the bilateral swap arrangement under the Chiang Mai Initiative with the following countries, as of June 2002: South Korea (US\$2 billion, a dollar-won swap arrangement, in addition to US\$5 billion under the New Miyazawa Initiative), Thailand (US\$3 billion, a dollar-baht swap arrangement), The Philippines (US\$3 billion, a dollar-peso swap arrangement), Malaysia (US\$1 billion, a dollar-ringgit swap arrangement, in addition to US\$2.5 billion under the New Miyazawa Initiative) and China (US\$3 billion, a yen-renminbi swap arrangement).

<sup>26</sup> *Financial Times*, 10 May 2000.

<sup>27</sup> Interview with a MOF official (International Bureau), May 12, 2000.

<sup>28</sup> Interview with a MOF official (International Bureau), May 12, 2000 and Tsutomu Himeno (Director, the Second International Economic Affairs Division, Economic Affairs Bureau, MOFA), May 17, 2000.

on the Japanese AMF proposal in 1997. Some finance officials comment that the success of the Chiang Mai Initiative was largely due to China's stance.<sup>29</sup> Wei notes that China is coming to accept that Japan has to play a certain role in the region, as it now believes that, without the participation of Japan, no regional economic organisation can be complete, given Japan's economic power.<sup>30</sup>

Among the factors underlying the initiative of Japan to push the swap agreements in the region was MOF officials' feeling that it was necessary to establish some regional financial framework in preparation for a future crisis. The previous chapter discussed the economic, political and ideological motivations behind MOF officials' interest in regional financial cooperation. In particular, given that not much was expected to be done for crisis prevention at the global level immediately, as it was an issue in which a variety of interests of a number of countries were involved, it was no wonder that Japan wished to have some self-help mechanism at a regional level. Such a framework was also likely to be a preventive measure by giving confidence to the markets.

Furthermore, it is particularly important to note the MOF's deeper motive in proposing the swap arrangements. Namely, some key officials were still driven by the initial vision of establishing the AMF, albeit in the very long-term, and they thought that such arrangements could be a step towards this goal. A senior finance official, who has been a central figure in the MOF's effort to advance regional swap arrangements, commented that he and other MOF officials wanted to reinforce regional surveillance by encouraging regional policy discussion. According to him, it is very difficult to establish a surveillance system, and even the IMF does not have a perfect one, but he insists that having an effective surveillance system is essential to realising the AMF in

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<sup>29</sup> Interview with Eisuke Sakakibara (Former MOF Vice Minister), September 18, 2001, and Masatsugu Asakawa (Director, Office of Regional Financial Co-operation, International Bureau, MOF), March 30, 2001.

<sup>30</sup> Wei, "Japan should work with."

the long-term.<sup>31</sup> Furthermore, an official states that by advancing the Chiang Mai Initiative, Japan wanted to keep the momentum of regional financial cooperation, which had grown since the crisis occurred.<sup>32</sup> Vice Finance Minister Kuroda, who has suggested that the AMF is Japan's medium-term, not long-term, agenda, is reported to have said at a meeting with Malaysian Prime Minister Mahathir that he would not give up the AMF, and the shortest way towards the AMF is to expand the swap arrangements and to establish a surveillance system.<sup>33</sup>

In short, the MOF is still aiming to establish a regional fund, more specifically the AMF. An official states that the MOF has been continuously considering a multilateral framework since the crisis, as it would be more effective than bilateral agreements in terms of the impact on markets.<sup>34</sup> Although MOF officials think that it is difficult to push the AMF at this stage and that the Chiang Mai Initiative may not necessarily lead to the AMF directly, it can at least keep the discussion on financial cooperation among East Asian countries alive. Also, if such a mechanism begins to work well and encourages regional surveillance, it will lead to closer financial relations among East Asian countries, which can create a more favourable environment for the AMF.

Additionally, behind the MOF's initiative concerning the East Asian swap arrangements, there is increasing support in Japan as well as in East Asia for closer regional financial cooperation, and the AMF in particular. It could be argued that such a favourable environment, to a certain extent, has helped the MOF push ahead with its agenda.

Within Japan, this support includes other Ministries, politicians, the business sector and influential academics. The MOFA appears to be more positive about a regional

<sup>31</sup> Masatsugu Asakawa (Director, Office of Regional Financial Co-operation, International Bureau, MOF), March 30, 2001.

<sup>32</sup> Interview with a MOF official (International Bureau), May 12, 2000.

<sup>33</sup> *Mainichi Shinbun*, 16 October 2000.

<sup>34</sup> Interview with a MOF official (International Bureau), March 28, 2001.

financial mechanism than in the past. It is notable that the Foreign Minister inaugurated the Study Group on International Economic and Financial Systems, which took the form of private study meetings for the Foreign Minister during the period between February and December 1999.<sup>35</sup> While the MOFA's interest in this subject itself is noteworthy, it is significant that the members of the Study Group, which consisted of business leaders and leading academics, recognised the necessity to strengthen East Asian cooperation. Takatoshi Ito, Professor of Hitotsubashi University and also Deputy Vice Minister for International affairs of the MOF (July 1999 – July 2001), stressed that there were two paths that Japan should proceed along in the future, namely to increase its voice in the IMF and to actively create a framework for regional cooperation in East Asia. He further argued that it was incumbent upon Japan to win East Asia's trust not only with its capital but also by systematically and proactively producing both human resources and ideas, such as the concept of the AMF. Hajime Shinohara, who is a long-term advocate of the AMF, as mentioned before, also emphasised the significance of the AMF, saying that Japan was expected to resubmit the AMF in a timely manner with strong resolve. Furthermore, Masaru Yoshitomi, Dean of the Asian Development Bank Institute, said that the East Asian financial crisis exposed the systemic problems of international finance, which highlighted the need for a regional fund to complement the IMF.

Some of the Japanese business associations have also become quite favourable to the AMF, partly because they have been advocating the necessity of the internationalisation of the yen, and consider that a regional financial framework such as the AMF would contribute to advancing it. The Japan Association of Corporate Executives (*Keizaidoyukai*), which consists of big business leaders, supported the AMF in its report titled 'A Private-Sector Perspective on the Internationalisation of the

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<sup>35</sup> See MOFA homepage, [www.mofa.go.jp/mofaj/gaiko/ccofin99/index.html](http://www.mofa.go.jp/mofaj/gaiko/ccofin99/index.html).

Yen- A Study on Japanese and Asian Stability and Growth'.<sup>36</sup> The president of the Japan Federation of Economic Organisation (*Keidanren*),<sup>37</sup> which represents the interests of big business, also sometimes refers to the AMF in his public speeches.<sup>38</sup> It is reported that the President of the Mitsui Global Strategic Institute stated that Japan should re-establish East Asian relations through the AMF.<sup>39</sup> The AMF or the Chiang Mai Initiative, or East Asian regionalism more generally, will not be directly concerned with business interests at least in the short term, and thus it is unlikely that any private firm or organisation will take any direct action to influence government policies on these subjects. However, the fact that top business people are positive about the AMF perhaps has provided a favourable environment for the MOF initiatives.

As far as the Japanese politicians are concerned, it is reported that the MOF sought support for the AMF from the ruling LDP at a party sub-committee (the sub-committee on international economic and financial affairs) in November 1999, and there were quite a few supportive responses from LDP members.<sup>40</sup> Also, some influential LDP politicians seem to support the AMF.<sup>41</sup> The least that can be said is that if the AMF proposal has not yet gained a large political base, at least there is no strong opposition to it.

In the other East Asian countries, the support for the AMF varies from country to country, but on the whole it seems that the number of people that backs the idea has been increasing, and the view that the AMF is necessary to further regional financial cooperation has become widely shared. The Malaysian Prime Minister Mahathir has

<sup>36</sup> See *Keizaidoyukai* homepage, [www.doyukai.or.jp/database/teigen/000511e.htm](http://www.doyukai.or.jp/database/teigen/000511e.htm).

<sup>37</sup> *Keidanren* merged with the Japan Federation of Employers' Associations (*Nikkeiren*), another business association, in May 2002, becoming Japan Business Federation (*Nippon Keidanren*).

<sup>38</sup> See, for instance, *Nippon Keidanren* homepage, [www.keidanren.or.jp/japanese/policy/2000/007/shiryoi.html](http://www.keidanren.or.jp/japanese/policy/2000/007/shiryoi.html).

<sup>39</sup> See Just Net homepage (organised by Sony Communication Network Corporation), [www2.justnet.ne.jp/~asia/inform/amf.htm](http://www2.justnet.ne.jp/~asia/inform/amf.htm).

<sup>40</sup> *Mainichi Shinbun*, 18 November 1999.

<sup>41</sup> For instance, see Hajime Kato's homepage, [www2.justnet.ne.jp/~asia/inform/amf.htm](http://www2.justnet.ne.jp/~asia/inform/amf.htm), although he resigned his post as a member of the Diet in April 2002.



been consistently supporting the AMF, while his Deputy suggested at a symposium on ASEAN-Japan relations in Tokyo in September 2000 that the Chiang Mai Initiative will not be sufficient to meet the challenges ahead, and that it can and should be expanded to become part and parcel of the AMF.<sup>42</sup> It is reported that, at the conference the 'Future of Asia', held in June 2000,<sup>43</sup> with the participation of East Asian leaders and business executives, there were discussions about the AMF.<sup>44</sup> For instance, the Secretary of Foreign Affairs of the Philippines stressed that the country was supporting the East Asian Swap Arrangements, the AMF and the internationalisation of the yen, while Lee Kuan Yew, the Senior Minister of Singapore, commented that, although he was not against the AMF, it had to be subsidiary to the IMF, as it was not possible to ignore 'the way the world is structured'. He also said that bitter medicine has to be administered from outside. Also, the ASEAN-Japan Consultation Conference (an Eminent Persons Group that the then Prime Minister Obuchi proposed to establish), which consists of 26 members including academics and executives of private companies from ASEAN and Japan, recommended in October 2000 that ASEAN and Japan should study the establishment of the AMF that is consistent with global governance at the private level.<sup>45</sup>

South Korea, who originally supported the AMF in 1997, had kept silent about the idea, but it seems that it has recently begun to be more positive. Prime Minister Kim Jong-pil surprised many when he proposed the creation of an Asian version of the IMF, the size of which would be around US\$300 billion, during a meeting with the Japanese Prime Minister in November 1998, but the South Korean government failed to endorse the Premier's remark at that time, saying that it was not the government's official position. In the following year Prime Minister Kim was again reported as reiterating

<sup>42</sup> See the Ministry of Foreign Affairs Malaysia homepage. [www.kln.gov.my/english/content/idx-speeches.htm](http://www.kln.gov.my/english/content/idx-speeches.htm)

<sup>43</sup> The conference was sponsored by Nihon Keizai Shinbun.

<sup>44</sup> See Nihon Keizai Shinbun homepage. [www.nni.nikkei.co.jp/FR/NIKKEI/inasia/future/](http://www.nni.nikkei.co.jp/FR/NIKKEI/inasia/future/)

<sup>45</sup> See the Japan Institute of International Affairs homepage. [www.jiia.or.jp](http://www.jiia.or.jp)

his call for the creation of the AMF,<sup>46</sup> but still there was little support from the country. However, it seems that the government has not been entirely negative about the AMF recently. A senior finance ministry official said that regional countries would first need to establish bilateral guarantees, followed by a multilateral agreement, before the AMF could take root.<sup>47</sup> Also, an official even said that the launching of a monetary fund is critically important to Korea, as Korea's recovery from financial and economic woes is closely inter-linked with its East Asian trading partners.<sup>48</sup>

With respect to China, as argued before, its increasingly positive attitude towards East Asian cooperation is striking. Although China failed to support the AMF proposal in 1997, there have been more positive responses from China to the idea lately. Angang Hu, a politically influential Chinese scholar and a member of the Chinese Academy of Science, stated at the conference on the 'Future of Asia' mentioned above that the view that it was necessary to support the AMF was gaining ground in China. Also, Premier Zhu Rongji was reported as saying that he wanted to support an 'East Asian Monetary Fund' during the meeting with the Malaysian Prime Minister in November 1999.<sup>49</sup> In fact, with respect to the swap arrangements, China has shown quite a positive attitude. China was actively involved in drafting an outline of the swap arrangements together with Japan and South Korea, while, during the ASEAN + 3 Finance Ministers meeting in September 2000 in Prague following the annual World Bank/IMF meetings, the Chinese Minister repeatedly emphasized that the swap arrangements should be put in place as soon as possible.<sup>50</sup> Also, as discussed before, it was China who proposed to hold a Finance Deputies meeting among the ASEAN + 3 countries, which eventually led to the Chiang Mai Initiative. Yoichi Funabashi argues that without Japan and China sharing a similar, or the same, concept about the region, regionalism in East Asia was

<sup>46</sup> The Korea Herald, 3 September 1999.

<sup>47</sup> The Korea Herald, 27 September 2000.

<sup>48</sup> The Korea Herald, 23 November 2000.

<sup>49</sup> Mainichi Shinbun, 18 October 2000.

<sup>50</sup> Mainichi Shinbun, 18 October 2000.

going to be difficult to develop.<sup>51</sup> In this sense, this change in China's stance is quite significant for the development of East Asian regionalism, and the AMF in particular.

There has been some development in the implementation of the proposed swap arrangements. The third meeting of the ASEAN + 3 Finance Ministers was held in September 2000 in order to flesh out the plan. In August, before the meeting, officials from China, Japan and South Korea drafted the outline of the arrangements together, and presented it to the ASEAN partners. However, ASEAN countries expressed their disapproval of it. While China, Japan and South Korea insisted that the acceptance of the IMF program is a condition for receiving assistance through the regional swap arrangements, ASEAN requested more flexibility.<sup>52</sup> During the Finance Ministers meeting in September 2000, ASEAN and the other three countries were in direct confrontation with each other on this point. In the event, the outline of the process to implement the regional swap arrangements was later agreed on at the ASEAN + 3 Summit in November 2000. The issue of the relationship between the regional facility and IMF assistance was decided as follows: assistance through the regional swap arrangements will be extended when a recipient country has already received an IMF loan, or is expecting to get it in the near future; however, when the countries who are giving credit consider that the recipient country is facing a short-term liquidity problem, the recipient country could obtain assistance through the arrangements of up to an amount of 10 percent of its limit without linkage of the credit with IMF loans. As mentioned above, Japan has already concluded the swap arrangements with South Korea, Thailand, The Philippines, Malaysia and China.

#### **The expansion of the ASEAN + 3 framework to other areas**

In addition to the development of regionalism in the area of finance, regional

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<sup>51</sup> Interview with Yoichi Funabashi (Asahi Shinbun), June 1, 2000.

<sup>52</sup> Mainichi Shinbun, 18 October 2000.

cooperation in East Asia has expanded to other areas. The Economic Ministers of the ASEAN + 3 countries held the first meeting in May 2000 in Yangon and agreed to meet twice a year. They agreed to encourage technical cooperation in information technology and e-commerce and to accelerate trade, investment and technology transfers. Moreover, following their joint statement in November 1999, the Foreign Ministers of the same countries gathered for the first time in July 2000 in Bangkok. They also agreed to meet twice a year on the regular basis in order to discuss the areas of human resources development, the problems of economic disparity, science and security.<sup>53</sup> It remains to be seen to what extent these meetings of the Economic as well as Foreign ministers will produce fruitful outcomes. In particular, there is an obvious limitation to discussing security issues without the US, given the region's heavy security dependence on the US. Nevertheless, it is noteworthy that East Asia has now additional new bodies to advance regional cooperation. As of the end of 2000, East Asia has an annual summit meeting and three ministerial meetings, of the Finance, Economic and Foreign Ministers, each due to be held twice a year.

#### **The fourth meeting of ASEAN + 3 in November 2000**

There was another step towards closer cooperation in East Asia before the turn of the century. The ASEAN + 3 leaders met in November 2000 for their fourth meeting, and agreed to set up a study group to consider two remarkable ideas, namely an East Asian summit and an East Asian free trade zone. The former idea, which was proposed by Malaysia, is an attempt to replace the present form of the ASEAN + 3 meeting, to which ASEAN invites the northern three countries, with a forum where each country attends as a member of East Asia although the forum consists of the same countries. Additionally, Thailand proposed the latter idea of an East Asian free trade zone, and the leaders also agreed that, in addition to the trade area, the study group will investigate the possibility of creating a free investment area as well.

<sup>53</sup> Nihon Keizai Shinbun, 27 July 2000.

Despite the difficulties that the two ideas, in all likelihood, will face, particularly given that even within ASEAN the advancement of the free trade area called the ASEAN Free Trade Area (AFTA) has not been very smooth, it is noteworthy that the establishment of the study group that will work on these ideas was agreed on by the leaders and there was no particular opposition to it, quite contrary to the negative reactions to the EAEC proposal in the early 1990s. As for ASEAN, Malaysia and Thailand were very positive about the two ideas, while Singapore was more guarded and stressed a gradual approach to them.<sup>54</sup>

As far as Japan's stance is concerned, the then Japanese Prime Minister Yoshio Mori suggested, after the meeting, that Japan would like to deepen the discussion about an East Asian summit with ASEAN,<sup>55</sup> although Japan seems to be more cautious about a free trade area. The then Foreign Minister Kono said that the idea of a free trade area would not be easy and would need further investigation among regional officials as well as ministers.<sup>56</sup> As for South Korea, who proposed more wide-ranging cooperation that included cultural issues, it was reportedly supportive about the two ideas. In fact, in early November, when the then Japanese MITI Minister visited South Korea, President Kim Dae-jung told the Minister that he thought East Asia needed a framework for regional cooperation that is equivalent to the EU and NAFTA.<sup>57</sup> Also, the president's aides were reported to promote his vision for transforming the ASEAN + 3 grouping into an economic community eventually.<sup>58</sup>

The Chinese officials refrained from expressing China's stance on the two ideas. It seems that China was a little bit embarrassed by the proposal about an East Asian free trade area, as it originally suggested the possibility of a free trade area among the

<sup>54</sup> The Bangkok Post, 26 November 2000, and The Straits Times, 25 November 2000.

<sup>55</sup> Nihon Keizai Shinbun, 25 November 2000.

<sup>56</sup> Nihon Keizai Shinbun, 24 November 2000.

<sup>57</sup> Nihon Keizai Shinbun, 4 November 2000.

<sup>58</sup> The Korea Herald, 27 November 2000.

ASEAN countries and China, not among East Asian countries, before the summit. However, China began to accept cooperation that includes Japan and Korea, although, at the same time, it continued to make an effort to form a FTA with ASEAN by showing plans to liberalise its agricultural market and to support the development of underdeveloped countries, such as Vietnam, Laos and Cambodia.<sup>99</sup> During the summit meeting, Chinese Premier Zhu declared that China would advance cooperation with ASEAN together with Japan and South Korea, while China agreed that the leaders of the three Northeast Asian countries, China, Japan and South Korea, would meet regularly on the occasion of the ASEAN + 3 summits, despite previous opposition.

It is worth exploring briefly here Japan's present stance on East Asian regionalism in the field of trade, as, given its economic weight in the region, its intentions in this regard will greatly influence the destiny of an East Asian free trade area. In spite of its fairly cautious attitude about the idea of a free trade area, as mentioned above, Japan is not definitely opposed to it. Japan has actually been thinking about this possibility, although it has not elaborated yet a complete picture of its medium-term trade policy. It is unquestionable that the Japanese government has been shifting its trade policy to diversify its options and embrace bilateral as well as regional trade arrangements, instead of relying exclusively on the multilateral framework centred on the WTO. It has already signed a bilateral free trade arrangement with Singapore in January 2002 and has launched preliminary discussions with South Korea. It is significant that the 2000 MITI White Paper boldly argues that there are benefits to regional cooperation (integration), maintaining that regional integration, which could give Japan an economic advantage, should be pursued as a supplement to the multilateral trading system. A senior MITI official made the point that contemplating a free trade area between Japan and South Korea or Singapore did not at all suggest that Japan was

<sup>99</sup> A year later in November 2001, China and ASEAN agreed to create a FTA with each other for the next ten years. In May 2002, senior officials from China and ASEAN agreed to establish a negotiation committee so that a framework agreement on the establishment of a FTA could be concluded by the end of the year.

considering a bilateral agreement only with these two countries, although there had not been clear consensus in the MITI about how they would advance regional integration in the future.<sup>60</sup> He also said there had been a clear shift in the MITI's interest from APEC to smaller East Asian cooperation.<sup>61</sup> Furthermore, Prime Minister Junichiro Koizumi, when visiting the ASEAN countries in January 2002, stated in his speech that he would like to propose an Initiative for Japan-ASEAN Comprehensive Economic Partnership, that the bilateral agreement with Singapore was an example of such an economic partnership, and that there was a need to stretch it from trade and investment to science technology, human resource development and tourism.<sup>62</sup>

It could be argued that this shift in Japan's trade policy comes partly from closer economic relations with East Asian nations, and partly from a sense of fear that it might be left out, given that most major countries have joined some sort of trade arrangement, regional or bilateral, together with unease about the future of the WTO. Although the prospect of an East Asian free trade area is yet to materialise, it is nonetheless of note that Japan, the largest economy in the region, has begun to consider the possibility of East Asian integration seriously.

#### **The stance of the US on East Asian regionalism**

It must be noted that, although the East Asian financial crisis has contributed to the current advancement of East Asian regionalism, as argued below, this trend would

<sup>60</sup> Interview with Akira Kawamoto (Director, International Trade and Research Office, International Trade Policy Bureau, MITI), May 26, 2000. In his opinion, it is difficult to think about a regional integration that includes China, and Japan should probably start by working with ASEAN and South Korea.

<sup>61</sup> Interview with Akira Kawamoto (Director, International Trade and Research Office, International Trade Policy Bureau, MITI), May 26, 2000.

<sup>62</sup> Later in April/May, 2002, Prime Minister Koizumi, in his speech during his visit to Asia Pacific countries, stated that "further strengthening of regional economic partnership by focusing on trade and investment is very important," but failed to refer to any concrete plan. Instead, he stressed the cautious approach by saying that: "[i]n East Asia, we should give consideration to the diversity in the region and the uniqueness of other countries. Furthermore, in promoting cooperation and joint regional initiatives, we should respect the existing regional cooperation frameworks." (MOFA homepage, [www.mofa.go.jp/region/asia-paci/pmv0204/speech.html](http://www.mofa.go.jp/region/asia-paci/pmv0204/speech.html))

have had difficulty in progressing without a change in the US stance. The US has not opposed the development of regionalism in East Asia, in contrast to its hostile attitude towards the EAEG in the early 1990s and the AMF in 1997. The US failed to respond to the Joint Statement of the ASEAN + 3 Summit in November 1999, while its attitude was surprisingly positive with respect to the proposal for the East Asian swap arrangements in May 2000. The then Treasury Secretary Lawrence Summers was reported as saying that he would give maximum support to the agreement.<sup>63</sup>

There appear to be a few reasons for this change in the US stance on East Asian cooperation. For one thing, although the US may not like these developments, it finds it difficult to find an appropriate way to respond to them. Its strong opposition to the AMF proposal in 1997 as well as its policy towards the East Asian financial crisis generated the negative reaction of East Asian countries. This has made the US more sensitive in its attitude towards the recent movement in East Asia. It may be argued that the US wants to avoid being seen to interfere with what East Asian countries are eagerly advancing. Also, the fact that even within the US there are criticisms against the government's opposition to the AMF has made the US more cautious about its position. Furthermore, Sakakibara considers that the East Asian regionalism has not been seen as threatening to the US so far, for instance, the swap arrangements are linked to IMF policies almost completely (90 %).<sup>64</sup>

#### **The crisis and the momentum of East Asian regionalism**

It has been shown so far that the trend of East Asian regionalism in the late 1990s can be explained by various long-term factors, such as the deepening of economic interdependence as well as the declining interest in APEC. Japan's interests in supporting the East Asian frameworks, and East Asian financial regionalism in

<sup>63</sup> *Nihon Keizai Shinbun*, 10 May 2000.

<sup>64</sup> Interview with Eisuke Sakakibara (Former MOF Vice Minister), September 18, 2001



particular, have been considered in Chapter 4 and in this chapter. These arguments contradict the popular view that it was the East Asian financial crisis that triggered the development of regionalism in East Asia, and that Japan's interest in regional financial cooperation has stemmed from the crisis,<sup>65</sup> stressing that such changes in East Asia and in Japanese policy should be considered in a longer-term and deeper context.

Nevertheless, the impact of the crisis on East Asian regionalism should not be overlooked. In fact the crisis in 1997 and 1998 accelerated this trend greatly. A senior Japanese MOFA official, who was deeply involved in the process of East Asian cooperation, stated that the impact of the crisis on the East Asian economies, and in turn on their policies, was immense, far more than generally recognised. He also said that the event intensified the growing trend to strengthen East Asian cooperation for peace and prosperity in East Asia.<sup>66</sup> This section explores how the crisis has affected the trend of East Asian regionalism.

First of all, the crisis has not only made the regional countries realise more clearly their economic interdependence, but it has also given them a considerable shock. It revealed to them the fact that they could be vulnerable to the negative effects of globalisation, a process they had thought to be entirely beneficial to them. When the currency crisis happened in Thailand in July 1997, no one could expect that the crisis would spread to such a large part of the region so rapidly. This contagion of currency devaluations and the fall of stock markets were actually caused by the global movement of capital and speculation, but the economic interdependence of the countries involved, which had been developed by the regional networks of trade and investment, affected the views of these markets, and eventually allowed the currency crisis to lead to the region-wide economic crisis. In some countries, a lot of what they

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<sup>65</sup> For instance, see Saori N. Katada, "Japan and Asian Monetary Regionalism: Cultivating a New Regional Leadership after the Asian Financial Crisis," *Geopolitics* 7, 1 (2002).

<sup>66</sup> Interview with Masahiro Kohara (Director, Regional Policy Division, Asian Affairs Bureau, MOFA), May 12, 2000.

had achieved economically in the previous decades, and which had given pride and confidence not only to the policymaking elite but also to their people, was lost overnight. Also, as argued before, the extent of the crisis affected China's stance on regionalism, and China came to recognise the significance of regional cooperation. This change in China's position is an essential factor if East Asian regionalism is to advance forward. Thus, it can be argued that ASEAN + 3 was, in a sense, developed out of the need to overcome this shock of the crisis. The East Asian countries came to be more aware of their economic interdependence and the necessity of some self-help measures to protect their economies against the forces of globalisation. In this sense, the trend of East Asian regionalism in the late 1990s was a way to cope with globalisation, rather than a response to regionalism in other areas.

In addition, during the course of the crisis, the disappointment with the US stance on East Asia grew significantly, which reinforced the trend for East Asian regionalism. The East Asian countries began to feel that East Asia was really too distant for the US, and also that the US was less willing to engage in East Asian matters. The US prompt policy towards the crises in Russia and Latin America following the East Asian crisis presented a clear contrast to its reluctant attitude towards the Thai crisis, when it failed to contribute, and its relations with the East Asian countries subsequently became awkward. Also, the US did not provide any actual money for bilateral assistance to the crisis-hit countries in East Asia, although it contrived to form a second line of defence in the rescue packages for Indonesia and South Korea and put its name on the list of contributors. A MOF official comments that there is no doubt that the crisis generated a sense that the affected countries had to help themselves, and that self-help was the only alternative, and this has contributed greatly to the region's interest in further financial cooperation.<sup>67</sup>

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<sup>67</sup> Interview with a MOF official (International Bureau), March 28, 2001.

Meanwhile, the IMF policies towards the East Asian financial crisis, which demanded radical structural reforms and austerity policies, were not regarded as effective and convincing by East Asian countries. Instead, the IMF policies left a bitter taste in the region and even resentment.<sup>68</sup> The IMF failed to prevent the crisis from spreading, and in Indonesia the financial crisis even led to a political crisis. In other countries, too, it took quite a long time to get their economies back on track. As discussed before, some have even discussed a conspiracy involving the US and the IMF. Also, Japan's dissatisfaction with the IMF in particular heightened as the crisis deepened, especially after the disagreement over the rescue package for Indonesia between the MOF and the IMF. Furthermore, as the crisis spread outside East Asia and the grounds the US and the IMF had had for blaming the region's crony capitalism in causing the crisis weakened, East Asian countries began to criticise the present international financial system, which allowed global capitals and specifically hedge funds to destroy their financial systems. Considering these factors, there is no wonder that the East Asian countries became increasingly discontent with the Washington Consensus, which strengthened their sense that self-help was the only alternative.

Furthermore, the crisis has created a more favourable environment for Japan's larger role in the region. It was after all Japan who provided most of the necessary funds to address the crisis. The announcement of the New Miyazawa Initiative was effective and timely, and the regional countries deeply appreciated it. As mentioned before, Japan's total assistance during the East Asian financial crisis eventually amounted to US\$80 billion. In addition, a senior MITI official emphasised that, despite a decline in the number of new Japanese direct investments in East Asia after the East Asian financial crisis, Japanese firms that had already invested locally rarely withdrew, nor did they lay off their employees in large numbers, and this convinced the East Asian

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<sup>68</sup> Higgott, "The International Relations of the Asian Economic Crisis."

leaders and people that Japan was taking its commitments towards them seriously.<sup>69</sup> On the other hand, the crisis revealed the limitation of the ability of ASEAN to protect its economy by itself. This seems to make more countries and more policy makers in ASEAN favour the expansion of their framework of cooperation to the Northeast Asian countries as a strategy to restore its economic vigour and to have a larger voice in the world. Even South Korea, who has been historically suspicious of Japan's dominance in the region, has become very interested in a regional framework, largely due to its humiliating experience during the crisis and a sense of the vulnerability of its economy in the world. In short, an East Asian mechanism, in which it is essential for Japan to assume a major role, has become more accepted in the region.

The crisis also increased the opportunities for policymakers in the region to work together. The Thai rescue package was the first significant event in which East Asian countries showed their commitment to resolve together a regional issue, feeling a sense of community. As the crisis spread to a large part of the region, the regional officials were deeply involved in various meetings throughout 1997 and 1998 in a search for ways to cope with the problems. For instance, there were various intensive discussions concerning the AMF in 1997 among regional policymakers, and Japan sent some missions to East Asian countries, including the missions for implementing the New Miyazawa Initiative and later the Okuda Mission, to discuss with the countries involved how to reconstruct their economies and how Japan could help them. Some new bodies for regional dialogue, such as the Manila Framework and the ASEAN-Japan Finance Ministers' as well as Finance Deputies' meetings, which began to be held after the crisis happened, obviously increased the opportunity for top-level interactions among East Asian countries. In order to deal with the increasing level of communication among East Asian officials, the Japanese MOF set up a new office

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<sup>69</sup> Interview with Akira Kawamoto (Director, International Trade and Research Office, International Trade Policy Bureau, MITI), May 26, 2000.

named the Asian Currency Office under the International Bureau of the Ministry in July 1998.<sup>70</sup> An official working in the Office commented that the number of meetings related to the East Asian issues increased dramatically since the crisis, and there was always somebody from the Office on an official trip to some regional country.<sup>71</sup> It can be argued that these opportunities afforded by the crisis for the proliferation of communications among East Asian countries has further expanded their collective activities in the region, and has fed into a further intense and extensive efforts to build the East Asian networks of cooperation, particularly in the financial area. All of these activities have contributed to the recent momentum for regionalism in East Asia.

#### **Some implications for the study of regionalism**

Finally, it is worth discussing the implications of the empirical case of East Asian regionalism for the study of regionalism more generally. The development of East Asian regionalism in the late 1990s has emphasised the importance of interaction and learning for economic cooperation. While several factors, such as the deepening economic interdependence, have provided a background against which East Asian regionalism could develop, some changes in the mind-set of East Asian policymaking officials, largely as a consequence of the financial crisis, have actually accelerated the process. As argued above, the crisis gave East Asian countries a common lesson concerning the risks and defects of the global capital markets as well as the existing international economic system. They also learned the necessity of self-help, particularly in the financial area. Furthermore, the crisis definitely increased communication among regional countries. Masayuki Tadokoro points out that "the common bitter experiences and shared memories of working together to overcome the crisis among central bankers and financial officials in the region undoubtedly

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<sup>70</sup> The name has been changed to the Office of Regional Financial Co-operation.  
<sup>71</sup> Interview with a MOF official (International Bureau), May 12, 2000.

enhanced the sense that Asians are all on the same boat."<sup>72</sup> This awareness has been an essential element in advancing the recent development of regionalism in East Asia.

These changes in the mind-set of the East Asian policymakers are significant enough to be characterised as cognitive learning as opposed to tactical learning,<sup>73</sup> although how East Asian regionalism will develop in the future remains to be seen. Before the crisis, no country in East Asia doubted that the global capital markets and the deregulation of financial systems would give them economic benefits. The crisis disproved this belief. As the recent trend of East Asian regionalism is based on a new awareness that the crisis brought about, and the impact of the crisis is very deep, it is not likely that East Asian countries will forget these lessons easily. In addition, for Japan, who has consistently wished for the US involvement in East Asia, the decision to advance a regional framework where the US is not included is very significant. In particular, the idea of East Asian cooperation, especially financial cooperation, has become more entrenched in Japan. As discussed before, the support came not only from the MOF, but also other ministries such as the MOFA and the MITI, some politicians, academics and the private sector. As a senior MOF official said,

it is inevitable that the American commitment to Asia will decrease in the future in terms of both security and economic issues, considering the change in the international system resulting mainly from the end of the Cold War. Therefore, Asia has to prepare for the US's gradual withdrawal from the region by starting to work for a regional framework, and this sort of consideration seems to be shared by a quite large number of high-ranked

<sup>72</sup> Tadokoro, "Asian Monetary Crisis," p. 18.

<sup>73</sup> According to Richard Higgott, in tactical learning the behaviour of regional states changes in order to respond to domestically generated needs and interests, while cognitive learning is accompanied by value change, namely the change in "regional values and aims, or more specifically the values of the individual regional states towards questions of economic autonomy, sovereignty and economic policymaking." (Richard Higgott, "Economic Cooperation," pp. 103-117.)

officials across key ministries.<sup>74</sup>

In short, Japan's positive stance on East Asian regionalism is based on the strong belief of a wide range of Japanese policymakers that East Asia should have some self-help mechanism to ensure the stability and prosperity of the region and that of Japan.

Given all this, it is reasonable to argue that the current momentum of East Asian regionalism is not merely a short-lived fad. It is based on significant changes in the beliefs of the East Asian as well as the Japanese policymakers, brought about by the East Asian crisis. Therefore, it can be expected that they will continue to work for this new project in the foreseeable future, although it may be a gradual process.

### **Conclusion**

This chapter has shown how East Asian regionalism has developed since the late 1990s and the role Japan played in that development. East Asian regionalism has grown out of ASEAN's invitation of the three Northeast Asian countries to its annual meeting, and thus ASEAN has assumed a prominent role. However, Japan has played an important role behind the scenes before and after this invitation was made, and these efforts contributed greatly to the advancement of East Asian regionalism. While Japan's economic resources themselves are essential for the East Asian regional frameworks, particularly for the financial frameworks, Japan has not been passive diplomatically and politically, but has been engaged actively in the development of such frameworks. It dispatched the Okuda Mission, which led to the Obuchi plan announced in November 1999, when Japan pledged its contribution to the regional process. Japan also made some important proposals, such as holding the ASEAN + 3 Foreign Ministers meeting. Furthermore, the chapter has documented Japan's behind the scenes role in advancing the Chiang Mai Initiative by negotiating with the

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<sup>74</sup> Interview with Shuhei Kishimoto (Director, Asian Currency Office, International Bureau, MOF), May 18, 2000 (author's translation).

countries concerned as well as the US very cautiously. These behind the scenes initiatives of Japan, together with its economic resources, have greatly encouraged the development of East Asian regionalism, although, as discussed above, there are various other factors that facilitated this development. This low-profile style of Japanese policy is the subject of the next chapter, where it will be examined more comprehensively in the longer-term context of postwar Japanese foreign policy.



## CHAPTER 6

### **The Style of Japanese Foreign Policy:**

#### **A Low-profile and Incremental Approach**

While looking at what Japan actually did in dealing with the East Asian crisis and towards East Asian regionalism and considering the factors that led to these policies, the previous two chapters noted how Japanese policymakers have successfully tried to promote their policy agendas, namely East Asian cooperation in general and East Asian financial regionalism in particular, by taking into account the long-term perspective. This chapter reconsiders these issues, placing them in the context of the style of Japanese foreign policy in the postwar period.

#### **The style of Japanese foreign policy in the postwar period**

Among the various policies Japan implemented during the East Asian financial crisis, the AMF proposal in September 1997 deserves special attention. The proposal was, as Altbach points out, indeed atypical of traditional Japanese foreign policy in the sense that Japan assertively articulated a policy and tried to take an independent initiative to realise the idea. He is correct to argue "the [AMF] plan represented one of the most ambitious foreign economic policy proposals to come out of Tokyo in the postwar period."<sup>1</sup> As this thesis has argued so far, Japan has gradually begun to show its willingness to take more initiative in the region as well as in the wider international society, and in fact, the AMF proposal can be seen as evidence of this change in the nature of Japanese foreign policy. However, what gives this proposal particular significance is the way Japan proposed the idea: it tried to take an overt and assertive initiative in the region, which looks like a departure from the usual way that Japan has pursued its aims.

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<sup>1</sup> Eric Altbach, "The Asian Monetary Fund Proposal," p.2.

As touched on in previous chapters, it can be argued that Japan has avoided taking an obvious and dominant leadership role throughout the postwar period, even in the region, where its economic superiority is overwhelming. This has often led to the criticism that it is reluctant to play a role, or to assume the leadership, that reflects its economic ability in the region, let alone in wider international circles, and that may have contributed to the image of Japanese foreign policy as immobilism or Japan as a reactive state. This may be correct if leadership is taken to mean merely 'hegemony' or dominant actions by one or more countries to compel others to go along with their preferred agendas.<sup>2</sup> However, this thesis argues that Japan has carried out its policies in a different style from what the dominant international relations circles usually expect. Japan has preferred to keep a low-profile approach while quietly and incrementally carrying out its policies to pursue policy objectives, and that style of Japanese foreign policy has been quite effective, given the domestic, regional and international constraints imposed on it. Japan has tried to avoid being regarded as taking the lead dominantly, but has taken some initiatives behind the scenes, gradually steering the situation in a direction favourable to Japan's national interests.

This style of Japanese policy has been already referred to in several places in the thesis, with some references to various academic works. The following section summarises these discussions on the low-profile and incremental nature of Japanese policy.

#### The Yoshida Doctrine and its implications for the style of Japanese foreign policy

To begin with, Japan's basic policy stance after the Second World War, based on the Yoshida Doctrine, namely the separation of economic matters and political matters, the

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<sup>2</sup> This understanding of the concept of leadership is close to what Oran Young calls 'structural leadership', namely the form of leadership derived from the possession of material resources, which is translated into bargaining leverage in negotiations in an effort to bring pressure to bear on others. On the other hand, the argument on the style of Japanese policy in this thesis is probably related to Young's 'entrepreneurial leadership', which is the use of negotiating skill to frame mutually acceptable deals and to persuade others to support them. (Oran R. Young, "Political Leadership and Regime Formation: on the Development of Institutions in International Society," *International Organization* 45, 3 (1991), pp.281-308.)

concentration on economic development and minimalist diplomatic as well as security policy, can be considered in the context of this discussion on the style of Japanese policy. It is true that this policy has come at a large political cost. Japan's heavy economic as well as security dependence on the US has greatly constrained Japanese policy, and at times has forced Japanese policymakers to conduct diplomacy cautiously and to compromise quite often with US requests, as discussed before. However, in a long-term perspective the Yoshida line has undoubtedly favoured the postwar Japanese economy and has greatly affected Japan's later political economy, laying the foundation for the current international and regional position of Japan. In fact, its one-sided dependence on the US was actually what Japan chose, as discussed in Chapter 2. It was Japanese policymakers' clever way of pursuing national interests under the peculiar international situation of Cold War bipolarity and given its devastated economy. In particular, the conclusion of the US-Japan Security Treaty after the Second World War, to which Japan's dependence can be largely attributed, was the result of Prime Minister Yoshida's skilful strategy. Indeed, it was a bold decision to entrust a country's military fate to another country, even though it constrained Japan's policy options and gave the US leverage over Japan. However, it is fair to say that this policy of Yoshida, accompanied by generous access to US markets (which Japan also obtained by choosing to support US Cold War strategies), greatly contributed to Japan's quick recovery from the postwar economic ruin and led to remarkable development thereafter throughout the 1960s and 1970s by allowing it to concentrate on economic issues. Also, this security relationship based on the treaty between the US and Japan was significant domestically as well, as it accommodated the Japanese people's pacifism and anti-militarism after the war. In short, it could be argued that Japan's minimalist diplomacy has established quietly and effectively its international position in the long-term perspective.

This policy has also contributed to the development of Japan's postwar regional

relations, in the sense that the US-Japan Security Treaty has helped to weaken the fear of the neighbouring countries that Japan might re-emerge as a dominant military power. The US engagement in East Asia through the security treaty has been regarded as a deterrent to Japan's militarism by East Asian countries, and thus has given them reassurance. This guarantee of Japan's good conduct through the security treaty and US engagement in East Asia has laid the foundation for allowing Japan to conduct a regional policy, albeit in a low-profile way, which has gradually and significantly contributed to recovering relations with its neighbours, so that Japan has been able to successfully expand its role in the region throughout the postwar period mainly by using its economic resources.

To sum up, it can be argued that the Yoshida line as *hoshu honryu* has affected quite favourably and gradually the postwar development of Japan's foreign policy. It enabled Japan to achieve its current status of economic power, while contributing to the gradual improvement of its regional relations.<sup>3</sup>

In addition to what the US-Japan Security Treaty has contributed to Japan's regional relations, as discussed in Chapter 2, Japan's economic power has gradually affected neighbouring countries throughout the postwar period and has helped Japan to build closer relations with them. This has led to the consolidation of Japan's economic and political position, and has eventually begun to allow Japan to take more initiative regionally. Although its regional policy was very limited in the 1950s and 1960s, Japan started a low-profile diplomacy with the region through aid, which developed into one of Japan's core policy tools towards East Asia, while making the region increasingly

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<sup>3</sup> There are also several criticisms against the Yoshida Doctrine. For instance, Masatoshi Ota, former MOFA official, stresses that, although the Yoshida Doctrine was probably a clever stance at the time, given the situation in which Japan was put, it had a lasting influence on the Japanese public. It was the source of a sense of dependence on other countries, which led to the adoption of the principle of conceding anything to avoid trouble, and thus constrained Japanese foreign policy. (Tadae Takubo, Masatoshi Ota and Shigeo Hiramatsu, eds., *Nihongaiko no Saitenken [re-examination of Japanese diplomacy]* (Tokyo: Jiji Tsushin sha, 2000), pp. 3-46.)

reliant on Japan. Also, successive Japanese leaders have tried to address East Asian relations, and it has become almost a custom that they make official visits to Southeast Asian countries and make policy speeches, usually pledging new economic assistance. In particular, as discussed in Chapter 2, the Fukuda Doctrine adopted in 1977 contributed greatly to the subsequent development of Japan-ASEAN relations. With respect to its China relations, even before the normalisation of diplomatic relations in 1972, Japan maintained economic channels with China under the *seikei bunri* policy. After the normalisation, Japan has dealt with China very cautiously through formal and informal networks, or 'politics behind politics',<sup>4</sup> and has been the largest aid donor to China. Furthermore, particularly since the 1980s, Japan's private and public capital has flown into the East Asian economy, which has not only triggered the regionalisation of the East Asian economy and has moulded a new regional economic order, but has also raised Japan's profile in the region, leading to ever closer relations between Japan and East Asian countries. This has gradually created Japan's long-term influence, initially economically but increasingly more politically, and a regional climate that allows its larger, albeit limited, role there. Hook et al. note, "Japan, through a policy of careful re-engagement and quiet diplomacy with East Asian states in the post-war era, has undoubtedly succeeded in manoeuvring itself into a position whereby it has regained the ability to construct and lead a latent East Asian region."<sup>5</sup>

Japan has used its economic resources for diplomatic purpose not only in its bilateral relations: by contributing to international organisations Japan has tried to enhance its international position in the long-term, and indirectly to increase its regional influence.<sup>6</sup> Despite the ideological difference between Japan and the Washington Consensus, as discussed in Chapter 3, Japan has never neglected its role in international organisations. On the contrary, contributing to international organisations

<sup>4</sup> Quansheng Zhao, *Japanese Policy Making: the Politics behind Politics* (Westport: Praeger Publishers, 1993).

<sup>5</sup> Hook et al., *Japan's International Relations*, p. 227.

<sup>6</sup> Yasutomo, *The New Multilateralism*, p. 62-63.

has become one of the mainstays of Japanese foreign policy. Japan is now the second largest contributor to many international organisations, including the UN and the World Bank, and the largest to the ADB, together with the US. Drifte points out that "international organisations provide an environment where Japan can take on certain leadership functions without being perceived as an obvious leader and without sacrificing too much political capital."<sup>7</sup> He goes further on this point and notes the 'catalytic' nature of Japanese foreign policy, where Japan chooses to cooperate and make coalitions with other states, transnational institutions and private sector groups to achieve its goals rather than taking on the traditional type of leadership. Drifte calls this incremental and low-profile type of leadership Japan's 'leadership by stealth'.<sup>8</sup>

It can be argued that this incremental and low-profile style of Japanese policy has built an environment that has allowed Japan to play a larger role even in the security area. As discussed in Chapter 2, there has been a shift in Japan's attitude towards the country's security policy since the early 1990s due to the end of the Cold War, and specifically because of the severe international criticism of Japan's failure to make a military contribution to the UN operation during the Gulf War. It was argued that some politicians and bureaucrats are quite positive about allowing the SDF to conduct more extensive military activities. Although the majority of politicians, bureaucrats, influential academics and business leaders still wish strongly for a US military presence in Japan and East Asia, an increasing number of people now accept the wider, albeit limited, role of the SDF, as the poll presented in Chapter 2 shows. Japan also began to voice its views on regional security matters, being more positive about regional security dialogues, an attitude which could not have been imagined a few decades ago. This new move of Japan since the early 1990s has become possible and less controversial domestically and regionally as a result of the incremental and low-

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<sup>7</sup> Drifte, *Japan's Foreign Policy*, p. 134.

<sup>8</sup> *Ibid.*, pp. 171-173.

profile approach throughout the postwar period that built up regional relations based on economic resources under the US-Japan Security Treaty. Although not all the regional countries are supportive of Japan's larger security role, the fear that Japan will resort to military means again as it did more than half a century ago has gradually abated, if not completely disappeared. Also, as Hook et al. point out, Japan has successfully strengthened its military by taking careful account of both internal and external pressures. That is, while Japanese policymakers have avoided taking a bold and visible decision about its security policy, and relied on the US hegemony, Japan has incrementally and quietly reinforced its SDF force, which has now become an ultra-modern fighting force.<sup>9</sup>

The shift in Japan's stance on security issues since the early 1990s has actually been a very incremental development. Japan's ability to take relatively quick action after the terrorist incidents on September 11, 2001 in New York and Washington and the fairly wide domestic consensus about the possible dispatch of the SDF on limited logistical missions in wartime for the first time, which can be seen as a major development in Japan's security policy considering the government's past hesitant attitude towards dispatching the SDF overseas even for PKO, were possible against the background of this step-by-step process of gradually shifting Japan's security stance since the early 1990s. Japanese policymaking agents and intellectuals as well as the public have gone through various stages of extensive discussion about Japan's security framework throughout the 1990s, starting in 1990 during the Gulf War through the passage of the PKO Bill in June 1992 and the deliberation over the revised Japan-US defence cooperation guidelines from September 1997 to September 1999. In addition, as argued in Chapter 2, even the discussion about revising the constitution has been gaining momentum since the early 1990s. Based on these developments in the 1990s, Japan finally was able to dispatch the SDF during the actual military actions in

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<sup>9</sup> Hook et al., *Japan's International Relations*, p. 72.

Afghanistan following the September 11 incident, although it was limited to providing logistical and non-combat support. Stockwin points out that in 1960 the revision of the Security Treaty, which forced the Prime Minister out of office, eventually passed through Diet, and despite the political crisis subsequent to the government's failing to deal with the Gulf War, the debate over the Gulf War crisis led to the passage of the PKO Bill a year and a half later. All this is proof that

immobilist politics does not, in the Japanese case, mean a total inability to effect political change, rather that a cumbersome process of consensus-building and of exhausting all possibilities has to be gone through for change to eventuate.<sup>10</sup>

Similarly, Hook and McCormack argue:

Unlike the dramatic and sudden changes in Eastern Europe and the Soviet Union symbolized by the collapse of the Berlin Wall and the break-up of the West's nuclear antagonist throughout the Cold War period, in Japan change only began to gather momentum after a prolonged period of unravelling, fatigue and uncertainty, during which the framework and direction imposed by Cold War politics and the growth economy dissolved slowly. The call on Japan to make a military contribution to the resolution of the Gulf War made the search for a new way forward all the more imperative, but it was only when it was clear that old ways no longer worked that the national debate slowly turned to focus on the options available for Japan in the emerging new world order.<sup>11</sup>

To sum up, Japan has gradually improved its regional relations over the last few decades by acting in a very cautious way. Some difficulties still remain, particularly in its relations with China and the Korean Peninsula, but it is noteworthy that there is

<sup>10</sup> Stockwin, *Governing Japan*, p.215.

<sup>11</sup> Hook and McCormack, *Japan's Contested Constitution*, pp.3-4.



now a much better climate in which Japan's greater initiatives, not only economically but also politically and even on security issues, are better received than before. There are various factors behind this change, as discussed before, such as the end of the Cold War and more recently the East Asian financial crisis. However, it can be argued that Japan's incremental and cautious policies towards the region throughout the postwar period and the use of its economic resources under the Yoshida Doctrine have greatly contributed to this situation.

#### Asia Pacific Regionalism and Japan's behind the scenes initiatives

In addition to the policies that enabled Japan to improve and strengthen its regional relations throughout the postwar period, since the 1960s, Japan has also embarked on a project to establish a regional framework. However, Japan has not led from the front and instead has tried to advance this agenda behind the scenes, and this series of its policies towards Asia Pacific regional cooperation also illustrate well the argument on the style of Japanese policy made above. As discussed in Chapter 2, Japan, in fact, tried to take some initiative for the construction of regional multilateral frameworks in the 1960s, for instance in the case of the ADB as well as MEDSEA, but these initiatives were not very successful. Japanese policymaking agents learned from these experiences that the countries of the region did not welcome their high-profile initiatives, and that Japan had to show its neighbours that it was not trying to dominate them. Thereafter, Japan began to take more cautious and low-profile approaches and tried to avoid overt initiatives in advancing regional frameworks.

This de facto failure of Japan in promoting an independent regional initiative in the 1960s made it turn to the idea of Asia Pacific cooperation. Although originally nurtured among academics, this concept received increasingly more attention from Japanese policymaking agents since the 1960s, as they considered that this was actually a very convenient concept to Japan. Namely, in this larger framework, Japan

could not only incorporate both its relationships with the US and East Asia, which it had tried to coordinate throughout the postwar period, but could also appear to dilute its influence and could advance regional cooperation without provoking open hostility.

The then Foreign Minister Miki espoused the concept of Asia Pacific cooperation at the official level for the first time in 1967. This, as argued in Chapter 2, laid the foundation for the future development of Asia Pacific regionalism based on the longer-term perspective. With little enthusiasm from other countries, government level interest in the concept became dormant, and instead it lived on mainly in academic circles, such as the PAFTAD and the PBEC, until the end of the 1970s. However, these private organisations became an important vehicle for the later development of the idea of Asia Pacific cooperation. It seems that Miki was aware that it was necessary to take a long-term approach to advance Asia Pacific cooperation by first creating a mood favourable to this cooperation, as discussed in Chapter 2.

After Prime Minister Ohira expressed his support publicly for the idea of Pacific Basin cooperation in the late 1970s, official level involvement in the regional process of cooperation increased greatly. However, again Japan's policy was very cautious. For one thing, Japanese policymakers preferred the quasi-private framework of PECC, as Ohira's study group as well as MOFA officials considered that it was essential to take a cautious and gradual approach for advancing Pacific cooperation because of the complicated regional situation. Furthermore, Japan hesitated to promote this agenda openly on its own, and instead proposed it jointly with Australia and let Australia take a major public role. Japan wanted to avoid being regarded by its East Asian neighbours as controlling the region or creating a second Greater East Asia Co-prosperity Sphere, and also to avert the US concern that Japan was building an exclusive East Asian block.

The Asia Pacific cooperation process eventually culminated in the establishment of

APEC in 1989. As discussed in Chapter 2, even in the initiation of APEC, Japan kept a low-profile presence. The MITI played a more than supportive role in the process of launching APEC, although Australia also took a crucial lead. However, the MITI persuaded Australia to assume the public role, while sticking to a behind-the-scenes role, partly because of its domestic rivalry with the MOFA, and partly because of the concern that there could be an unfavourable reaction from East Asian countries against Japan's leadership.

In short, as far as Japan's approach towards Asia Pacific cooperation is concerned, there has been a quite consistent pattern of long-term and behind the scenes policymaking. Japanese policymakers have been very cautious to advance this agenda, and until the formation of APEC they preferred to use private mechanisms, trying to nurture the idea of Asia Pacific cooperation by taking into account the long-term perspective. Also, it has tried to avoid taking the lead from the front so that it could appear to dilute its influence in the region. The recent policy of Japan concerning East Asian financial cooperation has also been following the same way, as argued below.

#### Factors in the low-profile and incremental style of Japanese policy

If this is the case, why has Japan exhibited such a style of policy particularly in its regional relations? How effective is this style of policy for Japan in advancing its policy agendas, and how does it compare in effectiveness with the alternative style, i.e. taking the lead openly? Some points have been already mentioned above, and here they will be recapitulated from international, regional and domestic angles.

Internationally, Japan's relationship with the US is an important reason for the low-profile and incremental nature of Japanese foreign policy. As discussed before, this thesis does not agree that Japan is merely reacting to US policies, but it is true that sometimes Japan has had to compromise with US requests because of Japan's heavy

dependence on the US in economic as well as security matters. In addition, other East Asian countries are closely linked with the US as well, and do not want to risk their relations with the US. Thus, it is quite unlikely that they would support a Japanese policy of strong opposition to the US. Such a situation has made it difficult for Japan to take a position independent of the US, and has made Japan show sensitivity to the US position, and conduct regional policies very cautiously. This has made Japan's dynamic, as opposed to incremental, policymaking quite unlikely and difficult. In fact, although the US does not oppose Japan's economic engagement in the region, it does not want Japan to dominate the region, as the case of the AMF proposal, presented in Chapter 4, suggests. Krauss rightly points out that, although the US at times requests Japan to take more responsibility for international affairs and to take a leadership role commensurate with its economic power, the US "would like Japan to play a 'leadership' role when it accords with American interests and strategy," and the "American definition of 'leadership' for Japan... sometimes has tended to be rather a form of followership to accomplish American goals with Japanese resources."<sup>12</sup> In this sense, the incremental and cautious style of Japanese policy has been effective for Japan as it allowed it to pursue its objectives without giving the US grounds to suspect that it was trying to dominate the region, or perhaps to challenge the US in terms of hegemony in East Asia.

Japan's regional relations have been the most important factor that influenced the choice for a low-profile foreign policy style. Due to the legacy of Japanese colonisation of its neighbouring countries, Japan's attempts to take any leadership in the region tended to be disliked by East Asian countries as any such attempt aroused the suspicion that Japan intended to move towards the Greater East Asian Co-prosperity Sphere again. Although the regional countries have become, in time, less worried about a repeat of what happened in the early twentieth century, some are still wary of

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<sup>12</sup> Krauss, "Japan, the US, and the Emergence of Multilateralism in Asia," p 485.

Japan's intentions, and, even recently, Japan's overt leadership has not been entirely welcome in the region. China, in particular, is highly sensitive to Japan's activism in East Asia partly due to its rivalry with Japan over regional leadership, in addition to historical reasons, as was evident in the opposition to Japan's AMF proposal, although it seems that even China has come to accept that Japan has to play a certain role in the region since the crisis, as argued in Chapter 5. In fact, a number of Japanese policymakers admit that the relationship with China is currently the biggest factor that constrains Japan's regional initiative and that they must always give careful consideration to Chinese actions.<sup>13</sup> South Korea and the ASEAN countries may be increasingly ready to accept Japan's regional initiatives, and policymakers in these countries have begun to acknowledge the necessity and importance of the Japanese regional initiatives, as discussed before. However, they still do not want to see Japan's dominant leadership, and welcome more its low-profile initiatives. This is partly because it is difficult for Japanese initiatives to be accepted by the general public in these countries, which is particularly true in South Korea. Sakakibara comments that Japan is in a very delicate position in East Asia and Japanese policymakers must handle this regional situation very cautiously.<sup>14</sup>

Finally, there are some domestic reasons for this style of the Japanese foreign policy. For one thing, some cultural<sup>15</sup> factors, such as the consensus-based system of Japanese society, might contribute to this style. In Japanese society people generally do not criticise others publicly, and negotiating behind the scenes, without causing others to lose, is the acceptable way of pursuing self-interest. This thesis cannot provide clear evidence of any causal relationship between culture and Japanese policy, as such an

<sup>13</sup> Interview with Masatsugu Asakawa (Director, Office of Regional Financial Co-operation, International Bureau, MOF), March 30, 2001. Also, interview with Eisuke Sakakibara (Former MOF Vice Minister), September 18, 2001.

<sup>14</sup> Interview with Eisuke Sakakibara (Former MOF Vice Minister), September 18, 2001.

<sup>15</sup> By culture, this thesis means, following the definition of Stockwin, those aspects of current practice which are influenced by relatively long-standing patterns of social interaction and by expectations about the behaviour of others conditioned by the norms and values of the society in which individuals operate. (Stockwin, *Governing Japan*, pp.220-221)

analysis lies outside the scope of the thesis, nor does it argue that cultural factors can explain a major part of the Japanese foreign policy. As discussed in the Introduction, this thesis adopts the stance that policymakers' considerations about various interests (national, organisational, domestic and personal) are important. Also, it seems that such cultural factors fail to explain, for instance, why the prewar Japan, who presumably had the same society and culture, took a more proactive approach. Nevertheless, cultural factors are not so trivial that they can be excluded from the analysis of the thesis completely, as some scholars who embrace rational choice theory claim.<sup>16</sup> Without overemphasising the peculiarity of the Japanese society, it is reasonable to assume that cultural factors have some effect on the behaviour of Japanese policymakers.

In addition to cultural factors, as discussed in the case of the formation of APEC, domestic politics such as bureaucratic turf battles have sometimes prevented Japan from taking decisive actions. In fact, it is interesting to note that, in the case of the AMF, when the actors involved were limited to MOF officials and who was in charge was quite clear, Japan took a quite different approach from the usual style of its policy, although this is not to suggest that bureaucratic politics alone explains Japan's policy.

**The implication of Japan's policies towards the East Asian crisis and East Asian regionalism for the style of Japanese foreign policy**

Considering the style of Japanese foreign policy presented so far, the proposal for the formation of the AMF, which can be regarded as Japan's attempt to take an independent and explicit initiative for a regional financial mechanism, is a major innovation. This raises the question of why Japan proposed the AMF in such an extraordinarily bold manner. For one thing, the dramatic success of the Thai rescue

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<sup>16</sup> J. Mark Ramseyer and Frances McCall Rosenbluth, Japan's Political Marketplace (Cambridge, Massachusetts: Harvard University Press, 1993).

package encouraged Japan to go beyond its usual style and voice its policy more assertively. MOF officials sensed an unusual atmosphere in the Thai meeting, as argued in Chapter 4, which made them think that they should take advantage of this impetus and show Japan's will to take the lead in the region whenever necessary.<sup>17</sup> In fact, Japan's initiative was not completely disliked by regional countries, which was a very different reaction from what had occurred a few decades ago. Also, MOF officials were frustrated with the response of the IMF and the US to the crisis,<sup>18</sup> which was probably compounded by the MOF's decade-long ideological disagreement with Washington. In fact, as mentioned in Chapter 4, to some MOF officials the AMF proposal meant a challenge to the Washington-based international system, and this strong feeling made them respond to the excitement created by the success in regional cooperation that lay behind the Thai rescue package. Also, the strong character of Sakakibara, who was quite distinctive among the MOF and the Japanese bureaucracy more generally, also affected greatly the behaviour of the Japanese officials.<sup>19</sup>

It remains to be seen whether this policy style exhibited in Japan's proposing the AMF implies the possibility of a shift in the nature of Japanese foreign policy. In fact, Japan did not press the proposal further after the Hong Kong meeting in September 1997, and resigned itself to forming the Manila Framework, which was a compromise for both Japan and the US (and the IMF). Interestingly, Sakakibara later reflected that the way Japan proposed the AMF was a more American-style approach, the style in which the US advances and realises its foreign policy goals. He continued, however, that he should have been more aware of the fact that Japan was under different conditions compared to the US (and, it would be difficult for Japan to adopt the same style as the

<sup>17</sup> Sakakibara, *Nihon to Sekai*, pp.182-183. Also, interview with Eisuke Sakakibara (Former MOF Vice Minister), September 18, 2001.

<sup>18</sup> Interview with Eisuke Sakakibara (Former MOF Vice Minister), September 18, 2001.

<sup>19</sup> Green also notes the character of Sakakibara in Japan's proposing the AMF. (Green, *Japan's Reluctant Realism*, pp.246-247.)

US).<sup>20</sup>

However, there are some factors that might cause, or are causing, some change in the style of Japanese foreign policy. It seems that the current quiet diplomacy has become less accepted domestically. Because of the tight budgetary situation of Japan under the prolonged stagnation of the economy, Japan cannot afford to maintain or increase the budget for ODA, which has been its main diplomatic tool for decades.<sup>21</sup> At the same time, how effectively ODA is used diplomatically has come under closer public scrutiny. A MOFA official comments that the government has been urged to show the public how ODA has enhanced Japan's national interests, although that will possibly appal recipient countries.<sup>22</sup> An editorial of the Nihon Keizai Shinbun reads: Japan has provided China with a total of 3 trillion yen of ODA in the last twenty years, which is more than half of what China has received bilaterally, but such a fact is hardly known by the Chinese public and the relations between the two countries have actually deteriorated.<sup>23</sup> This perspective probably reflects the views of an increasing number of Japanese intellectuals and the public. In this sense, it is noteworthy that when it announced the New Miyazawa Initiative, the Japanese government overtly publicized its policies specifically through the East Asian media, rather than keeping a low-profile. Also, it was more positively involved in the implementation process of the assistance measures under the New Miyazawa Initiative, in contrast to the passivity of the past aid policy based on the *yosei shugi*, as discussed in Chapter 4. In short, the image of Japan as the party whose role was reduced to merely writing a cheque is losing domestic support, and the government increasingly has to show more explicitly how the country's resources are effectively used for its national interests. This might become incompatible with the quiet style of policy.

<sup>20</sup> Sakakibara, Nihon to Sekai, p. 186.

<sup>21</sup> It has been decided to cut the ODA budget by 10 percent in the 2002 fiscal year.

<sup>22</sup> Interview with Kinichi Komano (Director, Research and Programming Division, Economic Cooperation Bureau, MOFA), May 19, 2000.

<sup>23</sup> Nihon Keizai Shinbun, October 25, 2001



Also, as discussed in Chapter 2, Japan has increasingly tried to obtain a voice in the international society and to re-establish its international status particularly after the end of the Cold War, which sometimes has persuaded Japan to articulate its policy more assertively. In fact, it has been argued so far that Japan has been more willing to take political initiative, and this may lead to its more visible roles. Take a look at a recent example. It may be possible to consider Japan's positive policy of hosting a ministerial conference for Afghanistan reconstruction in January 2002 as a sign that Japan has taken on a more high-profile role. With respect to the hosting of this international conference, Financial Times said that Japan is "hoping to persuade the world that it has outgrown its customary role as the globe's cheque-book diplomat."<sup>24</sup> This might be affecting the style of Japanese policy in the near future.

Nevertheless, this thesis considers that Japan's style of foreign policy and its initiative-taking are not necessarily incompatible. The way in which Japan takes initiatives still exhibits the above-discussed style of policy, although in a sense it may be less low-profile than before. More recent Japanese initiatives, such as the New Miyazawa Initiative and the hosting of the international conference for Afghanistan, are still very cautious, rather than dominant or intrusive, despite being a bit more high-profile than usual. Japan has made every effort to create a consensus with East Asian countries as well as with the US behind the scenes. It does not have any intention to defy the US, or to influence regional countries forcefully through the deployment of its economic resources. In this sense, it probably does not necessarily follow from these recent initiatives that Japan has been going beyond the usual style of its foreign policy, and its relationships with the US as well as East Asian countries have still greatly constrained Japanese foreign policy. Furthermore, even the pursuit of the AMF proposal is not entirely contradictory to the typical style of Japan's foreign policy, despite its apparent uniqueness, nor was it a complete failure for Japanese officials in the sense that Japan

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<sup>24</sup> Financial Times, January 18, 2002.

is realising its policy goals from the long-term perspective, and so is the New Miyazawa Initiative. It is now discussed below how the AMF proposal and the subsequent Japanese policies towards the crisis and financial cooperation still exhibit some elements of the quiet and gradual policy style.

As far as the AMF proposal is concerned, although the AMF was not realised, it seems that Japanese officials do not necessarily regret having proposed the idea. In fact, when Japan put forward the idea, they did not intend to establish the AMF coercively.<sup>25</sup> Sakakibara states that by proposing the AMF Japan could show East Asian countries that it is ready to take on regional responsibilities and to contribute to regional issues positively. This, he and the other officials considered, could become a starting point for a deeper relationship between Japan and its neighbours in the long term. In hindsight, this was also an opportunity for Japan to learn how China would react to Japan's initiative in the financial area.<sup>26</sup>

More significantly, the AMF proposal and the process in which it was discussed during the latter half of 1997 became a springboard for regional discussions concerning regional financial cooperation. In other words, by proposing the AMF, Japan, as a consequence, was able to initiate regional dialogues about what some Japanese officials had been thinking for some time to be necessary. Chapter 4 discussed their recognition of the necessity to strengthen financial cooperation for the sake of the region's financial stability and their interest in a regional financial framework even before the crisis, although this had not been considered very pressing at that time. Japan could advance this agenda by proposing the AMF. The interest of East Asian countries in the AMF looked to have diminished and the idea was regarded as spent after Japan dropped it in 1997, but, on the contrary, the idea of the AMF and the discussions about a regional financial framework survived. An increasing number of

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<sup>25</sup> Interview with MOF official (International Bureau), May 12, 2000.

<sup>26</sup> Interview with Eisuke Sakakibara (Former MOF Vice Minister), September 18, 2001.

East Asian leaders and officials are currently supporting the idea of the AMF, as discussed before. Also, the increasing regional discussions on that subject have led to the current momentum of regional financial cooperation, specifically the swap arrangements. In short, the AMF proposal has contributed to a lasting discussion on East Asian financial regionalism among regional leaders and intellectuals.

In addition, the formation of the Manila Framework was not, contrary to what some argue, simply a face-saving attempt by Japan after abandoning its original idea. Although the Manila Framework falls short of the AMF, it at least provides more opportunity for regional leaders to meet and discuss with each other, which Japanese officials thought to be important in order to keep alive the regional dialogues for further regional cooperation triggered by the AMF proposal. In fact, Sakakibara argues that Japan's motivation in advancing the formation of the Manila Framework was that it did not want to lose the momentum that had been generated by the AMF proposal and wanted to prevent the proposal from being buried completely.<sup>27</sup>

The New Miyazawa Initiative can also be discussed in the same context. Despite its bilateral character, there was an implicit message in the New Miyazawa Initiative that Japan still desired to create some form of regional financial framework or the AMF, and it actually contained some multilateral elements, such as the ACCSF, which, Japanese officials hoped, could develop into a regional mechanism in the future beyond bilateral assistance, as argued in detail in Chapter 4. Furthermore, the New Miyazawa Initiative contributed greatly to relieving the economies of the crisis-hit countries, and strongly impressed East Asian countries, particularly as Japan was beset by its own difficult economic problems. This could help to restore Japan's reputation and the confidence of the regional countries in Japan after their disappointment over Japan's withdrawal of the AMF proposal in 1997. In fact, this policy of Japan seems to

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<sup>27</sup> Sakakibara, *Nihon to Sekai*, p. 189.

have dramatically improved its relations with ASEAN countries and South Korea not only for the moment but even from the middle and long-term perspective.<sup>28</sup> It has possibly made Japan more welcome as a regional power and has created a more favourable environment for Japan to advance the agenda of forming a regional financial framework. In addition, as argued in Chapter 5, Japan's positive attitude and commitment to resolve the crisis has made ASEAN countries recognise anew the necessity to deepen their relations with Japan, and the other Northeast Asian countries, China and South Korea. It has also given them some confidence that it is worth considering the formation of a regional framework in East Asia. This understanding of ASEAN policymakers has led to their more positive attitude towards cooperation with the north even beyond the financial area, and has contributed to the current momentum in East Asian regionalism.

Furthermore, Japan's initiative in establishing the currency swap arrangements in East Asia can be regarded as another step towards realising the AMF in the future, although the swap arrangements themselves are a collection of bilateral arrangements, in fact the expansion of existing agreements, and should be distinguished from the AMF. While the support for the AMF within Japan has increased, Japanese officials have thought that it is not the right moment to put forward the AMF proposal again and that they need more time to create a consensus among East Asian countries, the US and the IMF before proposing it. For the time being, by proposing the swap arrangements they wanted to show that Japan was still working towards closer regional financial cooperation in order to maintain the momentum and to keep regional countries interested in it,<sup>29</sup> while expecting these arrangements to develop into a multilateral

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<sup>28</sup> Makoto Iokibe, in a statement made at the Toshiba International Foundation Symposium held at the British Museum on September 17, 2001. He also commented that, although Japan-South Korea relations seemed to have become difficult again due to disputes over a controversial history textbook and the Prime Minister's visit to the Yasukuni shrine, the attitude of South Korean officials and leaders was different from the past strong antagonism towards Japan, and they wished Japan to make some sensible gesture in order to calm the public down.

<sup>29</sup> Interview with MOF official (International Bureau), May 12, 2000.

framework in the future. Also, the member countries agreed that a recipient country can receive only 10 percent of the limit through the swap arrangements without linkage to the IMF loans. This was the result of taking into account the US interests as argued in the previous chapter. Japanese officials, particularly Vice Minister Kuroda, thought that some compromise with the US had to be made as the priority was to establish a regional mechanism and not to lose the current impetus for regional financial cooperation.<sup>30</sup>

In addition, the establishment of the region-wide swap arrangements in itself would be a significant step towards closer financial cooperation in East Asia. The new swap arrangements may actually have only limited significance economically, as they are not large enough in size to work as a regional emergency financial mechanism, and cannot be activated automatically. However, given that there are few financial frameworks in the region, such a new framework could play a certain, albeit limited, role in preventing and preparing for a future crisis, practically as well as by giving assurance to the markets. Furthermore, it may also make it easier for Japan to advance the idea of the AMF in the future, in that an East Asian financial framework can be seen as a more natural idea, or as a *fait accompli* to some extent, rather than something completely new.

It is also worth noting the way Japan proposed and pushed forward the regional swap arrangements. As discussed earlier, the MOF took the lead behind the scenes to advance the idea, but it did so very cautiously and not in a dominant way in order to avoid receiving the same reaction as it had done when proposing the AMF. Prior to making the plan to establish the swap arrangements public, Japanese officials conducted a number of negotiations with China and South Korea at the deputy, as well

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<sup>30</sup> Interview with Eisuke Sakakibara (Former MOF Vice Minister), September 18, 2001.

as lower, levels.<sup>31</sup> The outcome of these negotiations was discussed further with ASEAN countries and, after the consensus among the ASEAN plus three countries was created, the Chiang Mai Initiative was announced for the first time as a statement of the ASEAN plus three Finance Ministers in May 2000. Importantly, this time it was China who took a quite important and visible initiative for this mechanism. Also, the MOF did not neglect to assure the US that Japan was not trying to dominate the region and to exclude the US from East Asia.

To sum up, despite the failure of the AMF proposal in 1997, Japan has continued to advance the agenda of regional financial cooperation. It is not leadership from the front, nor has Japan overtly articulated what it wants to do. Yet a series of its policies after the crisis have gradually moved the region towards deeper financial cooperation, although this is still limited. They have also contributed to a revival of the discussions about the AMF among East Asian officials and have increased support for the idea in Japan and other East Asian countries. Japan's policies during and after the crisis are quite consistent with the argument that Japan has effectively advanced its agendas slowly but surely in a low-profile way.

#### **How unique is the style of Japanese policy?**

Japan's policy style particularly in regional matters can be considered as exhibiting a somewhat different character from that of other major countries. But how unique is this style compared with that of others?

As suggested above, Japan's policy style seems to be quite different from the way in which the US advances its agenda internationally or regionally. Both countries possess a certain amount of material resources, although in the case of Japan such resources are predominantly economic. However, they clearly differ in the way they transform

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<sup>31</sup> Interview with Masatsugu Asakawa (Director, Office of Regional Financial Co-operation, International Bureau, MOF), March 30, 2001.

their resources into bargaining leverage. The US tends to use them more directly, and often unilaterally and coercively, through threats and promises, overtly articulating what it wants to advance. On the other hand, Japan uses its economic resources more indirectly, as discussed above. Japan may not explicitly insist on what it wants to do, but tries to achieve its goals in a more low-profile way.

It is not difficult to find cases that illustrate the way the US implements its policy. For instance, the US relations with Latin America, a region of great significance to its national interest, are considerably different from the relations Japan has with its East Asian neighbours. Consider the US initiative to expand the NAFTA to the Western Hemisphere as a whole. Although this agenda has not necessarily been going smoothly, the US way of advancing it, starting with President Bush's announcement of the Enterprise of the Americas Initiative in 1990 and later through some important initiatives, notably hosting the first Summit of the Americas in Miami in 1994, makes a sharp contrast with Japan's behind the scenes initiatives in APEC or the recent East Asian regionalism. Indeed, historically the US strong foreign policy actions "condition the patterns of interaction not only in the [Latin American] system as a whole but also inside individual countries."<sup>32</sup> Also, the US forceful position, directly or through international organisations, can be often observed in East Asia as well. A recent example is the US strong attack against the AMF proposal in order to make Japan drop it, or its severe demands made through the IMF for a wide range of economic liberalisation measures in the crisis hit countries as a condition for the IMF bailout, as discussed in detail in Chapter 4. This hard line of US policy may not always work well in East Asia. For instance, despite its strong wish to propagate its liberal economic norms into East Asia, it is not easy for the US to impose them on the region.<sup>33</sup> Also,

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<sup>32</sup> J. Nef, "The Political Economy of Inter-American Relations: a Structural and Historical Overview," in Richard Stubbs and Geoffrey R. D. Underhill eds., *Political Economy and the Changing Global Order* (London: Macmillan, 1994), p. 404.

<sup>33</sup> For instance, Nesarurai questions that the US has the capacity to impose its economic agenda on the region by examining the process of APEC. (Helen E. S. Nesarurai, "APEC: A Tool for

with respect to the human rights issue, even though the US made tough and forceful demands on China and used the diplomatic cards of WTO membership to that effect, it is by no means accurate to say that the Chinese government has made a full compromise so far, although it is very reasonable to suppose that East Asian countries' heavy dependence on US economic and security power has allowed, and will continue to allow, the US to adopt such a powerful and intrusive stance towards East Asia on a variety of issues.

Germany's policy style also contrasts with that of Japan's, particularly in the area of regional policy. Germany has a regional position akin to that of Japan in terms of its historical background as well as economic dominance, namely it failed to create an empire in Europe and was defeated in the war as was Japan and now is a prominent regional economic power as is Japan. However, it has taken a quite different regional approach to Japan since the end of the war, having taken explicit political initiatives in Europe much more than Japan has done in East Asia. Specifically it has taken the lead, together with France, in the development of a more unified Europe, and has played a conspicuous and visible role in the region. Katzenstein and Shiraishi contrast Germany's strong political commitment to the creation of an integrated European polity through influencing Brussels with Japan's economic engagement 'from behind' in market integration in East Asia.<sup>34</sup>

Furthermore, Japan's policy style seems to be quiet even when compared with 'middle power' countries like Australia. It could be argued that Japan's policy shares some common characteristics with that of these countries in the sense that they rely more on

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US Regional Domination?" *The Pacific Review* 9, 1 (1996) ) Also, despite the harsh position of the IMF during the crisis, it is questionable that the liberal norms have really taken root in the region.

<sup>34</sup> Peter J. Katzenstein and Takashi Shiraishi, "Conclusion: Regions in World Politics: Japan and Asia - Germany in Europe," in Katzenstein and Shiraishi, eds., *Network Power*, pp.341-381.



negotiating skill or consensus-making in advancing their agenda,<sup>35</sup> rather than taking dominant initiatives. However, Japan probably prefers to be more low-profile. In fact, it was shown above that Japan wanted Australia to take visible initiatives in advancing regional projects, most notably APEC, while supporting the ideas behind the scenes. The Australian policy style is different from the US unilateral approach, but probably it is more visible than Japan's.

As far as the long-term and incremental nature of Japan's policy is concerned, some may argue that this point should not be overemphasised as being specifically unique to Japan. In general, policy in Western democratic countries tends to be incremental, and "does not move in leaps and bounds."<sup>36</sup> However, there are reasons to believe that Japan's political economy tends to operate in a longer time framework than it is the case in other countries because of domestic, regional and international factors, as argued above. Glenn Hook et al. refer to the long-term developmentalist goal of the Meiji leaders, who successfully led the country to become a major industrial power within a century.<sup>37</sup> Over the last fifty years, Japan's postwar policies have also shown a remarkable degree of consistency and thus testify to the long-term nature of Japanese foreign policy.

#### **How deliberate is the style of Japanese foreign policy?**

Despite the apparently minimalist or reactive character of Japanese foreign policy, Japan has quietly but effectively pursued its policy objectives. However, a few caveats are in order. This argument seems to assume the strategic and rational nature of Japanese foreign policy for the pursuit of national interest. As discussed in the

<sup>35</sup> Higgott et al. argue this in the analysis of the formation of the Cairns Group. (Richard Higgott, Andrew Fenton Cooper and Jenelle Bonnor, "Cooperation-Building in the Asia-Pacific Region: APEC and the New Institutionalism," Pacific Economic Paper no. 199, September 1991, Australia-Japan Research Centre, and Richard Higgott and Andrew Fenton Cooper, "Middle Power Leadership and Coalition Building: Australia, the Cairns Group, and the Uruguay Round of Trade," *International Organization* 44.4 (1990), pp. 589-632.)

<sup>36</sup> Charles E. Lindblom, "The Science of Muddling Through," pp. 84-85.

<sup>37</sup> Hook et al., *Japan's International relations*, p. 72.

Introduction, insisting on the rationality of Japanese foreign policy does not necessarily lead to the assumption that the Japanese state is a unitary actor; rather this thesis stresses that the policymakers' considerations on national interests matter. However, it is necessary to consider whether this style of Japanese policy is the result of the deliberate calculations of Japanese policymakers being fully aware of various constraints on Japan, or whether Japanese policy just tends to take that style due to the domestic constraints discussed above and happens to achieve some results only due to luck. In other words, it is important to ask if the style of Japanese policy is a result of Japanese policymakers' strategy or merely of domestic politics or cultural factors such as a consensus-based society.

Japan's policies towards the crisis and East Asian regional financial cooperation could be regarded, from this point of view, as the result of a process of trial and error in the elaboration of domestic and international politics. It was argued that the AMF became the springboard for regional discussions. However, this was probably not what Japanese policymakers carefully planned when they originally proposed the idea. In fact, Chapter 4 discussed various factors, economic as well as political, that led to the AMF proposal, other than their grand strategies on the future regional monetary architecture. In facing the failure of the AMF proposal and the prolonged crisis in late 1997, it is doubtful that MOF officials had a very clear vision about what the ministry had to do, although it seems that they shared a sense of emergency. Under these circumstances, they conceived the New Miyazawa Initiative, which, in a sense, was an extension of past aid policies and involved the MOFA in the implementation process, and would cause less controversy to get the support of the MOFA and other domestic agents as well as the US. It was also argued that this New Miyazawa Initiative reflected various motivations, such as Japanese policymakers' concern over Japan's own economy and East Asian countries' scepticism about Japan's commitment to the region, other than a plan for a future multilateral framework. While the AMF proposal

was not completely buried and there has been consistent support for it, it has eventually led to the establishment of the regional swap arrangements, and the momentum for regional monetary cooperation has been sustained so far. However, this cannot be entirely credited to Japanese policies, although they were indeed responsible for this outcome to a certain extent. This outcome was also the result of the growing worry of East Asian countries about the current international financial system, given the spread of the crisis globally, as well as the change in China's stance on regional cooperation. In this sense, the development of the process of regional monetary cooperation in East Asia is not entirely attributable to Japan's strategic policy based on Japanese policymakers' careful and long-term calculations.

Nevertheless, it should not be overlooked that the Japanese policies towards the crisis and regional financial cooperation certainly involved strategic thinking on the part of Japanese policymakers, specifically MOF officials, on Japan's future role in East Asia as well as its national interest. They were aware of how Japan should advance its policy agenda under its international and regional constraints and opportunities. Adachi and Shiroyama point out that MOF officials, in particular, are educated within the ministry to serve for the national interest after they start their career in the ministry as new graduates, which has greatly contributed to their stronger commitment to the national interest than bureaucrats in other ministries, although this should not be over-exaggerated.<sup>38</sup> It is noteworthy that some senior ex-MOF officials have recognised how Japan should advance its agenda in the relations with East Asian countries as well as the US. For instance, Sakakibara comments that Japan should take regional initiatives in terms of offering ideas and money, but should do this cautiously and not in a dominant way.<sup>39</sup> Likewise, Isamu Kubota states that Japan does not have to take a

<sup>38</sup> Nobil Adachi and Hideaki Shiroyama, "Okurasho no seisaku keisei katei [policymaking process in the Japanese MOF]," in Hideaki Shiroyama, Hiroshi Suzuki and Sukehiro Hosono, eds., Chuo Shocho no Seisaku Keisei Katei [policymaking process in the central government ministries] (Tokyo: Chuo Daigaku Shuppanbu, 1999), p. 247-248.

<sup>39</sup> Interview with Eisuke Sakakibara (Former MOF Vice Minister), September 18, 2001.

visible leadership role like the US, and that it is more than satisfactory for Japan to realise its goals eventually.<sup>40</sup> In fact, it was discussed in Chapters 4 and 5 that key MOF officials, such as Sakakibara, Kuroda and Kishimoto, have considered that any regional monetary framework, specifically the AMF, should be pursued, and they were fully aware of the necessity of longer-term strategies to achieve that goal. For instance, Vice Minister Kuroda, in promoting the swap arrangements, considered that the establishment of the AMF should be Japan's middle-term policy objective, which was to be advanced step by step, and that extending the regional swap arrangements, which was far short of the AMF, would be a significant move towards it. In short, the Japanese policies towards closer financial and monetary cooperation in the East Asian region have, to a significant extent, reflected the ideas of some key decision-makers in the MOF about what are necessary and desirable for Japan and how Japan can achieve its goals in the international environment where the country finds itself.

It was also discussed that the Japanese policy towards the development of Asia Pacific cooperation was based on policymakers' strategic considerations about how Japan would be able to promote this concept. It is true that Japan's low-profile approach is not entirely a reflection of their strategic thinking. For instance, the rivalry of the MITI and the MOFA in the process of establishing APEC was referred to before, which could be interpreted as a case where Japan merely failed to take the lead due to a result of pragmatism and a fragmented domestic policymaking process. Also, the academic-centred development of Asia Pacific cooperation until the late 1970s was not necessarily what the Japanese government initiated or positively promoted. However, it is also true that subsequent policymakers, including Miki, Ohira and the MITI and MOFA officials who worked for APEC, shared the view that a regional framework that includes the US and Australia would contribute to Japan's national interests, and thus it should be seriously considered. It was also discussed that, despite this positive stance

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<sup>40</sup> Interview with Isamu Kubota (former Director-General, MOF), May 20, 2000.

of Japanese policymakers on the Asia Pacific cooperation, they had strong reservations about Japan's visible role, which made them take a very cautious and long-term approach. On the whole, the ideas of these policymakers about what would be the best way to achieve their goal of establishing an Asia Pacific framework, to a large extent, could explain their low-profile and incremental approach towards Asia Pacific cooperation.

Finally, it is necessary to qualify to a certain extent the argument that Japan's low-profile diplomacy based on the deployment of its economic resources has gradually achieved not only economic, but also political, influence of the country on the region throughout the postwar period, as it is fundamentally the private sector and its economic needs that have triggered the changing economic order in East Asia, as discussed in Chapter 2. Thus, this change in the regional economic order was not solely the result of Japan's deliberate and calculated strategies to create a sphere of influence for itself, contradicting the remark of Chalmers Johnson that the Japanese government, specifically bureaucrats, are guiding the nation in the direction of a new 'Greater East Asia Co-prosperity Sphere', which was referred to in the Introduction. Perhaps the above argument overemphasises the ability of the Japanese state. To what extent the Japanese state has been intentionally 'leading from behind', and to what extent merely following market forces is an open question.

Nevertheless, it should not be overlooked what the Japanese government has done, either. The Japanese government and the private sector, without doubt, have a much more intimate relationship than is usually seen in Western economies, and government 'has penetrated business, and business has penetrated government'.<sup>41</sup> For instance, in spite of the fact that the ratio of aid tied or partially tied in the total Japanese aid has been significantly reduced and is now substantially lower than the OECD average, in

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<sup>41</sup> Hatch and Yamamura, *Asia in Japan's Embrace*, pp.116-117.

reality Japanese firms have won forty or fifty percent of contracts for projects paid with Japanese untied aid.<sup>42</sup> Weiss stresses that "relocation to the region [of certain parts of the Japanese production system] was much more a publicly coordinated effort than an ad hoc response by individual firms acting alone."<sup>43</sup> Furthermore, Japan's aid itself has great significance in this process, as discussed in Chapter 2. Therefore, while it would be an exaggeration to say that what has been happening in the East Asian economy in the last few decades is solely the result of the strategies of the Japanese government, it can be said with fair certainty that at least their policies have contributed to the changes in the East Asian economy to a significant extent.

In short, although the style of Japanese foreign policy is not entirely the result of strategic thinking on the part of Japanese policymakers, it reflects to a great extent their considerations on Japan's national interests under the external constraints on Japan. As argued in the Introduction, Japanese policy is the product of a number of various interests of the policymakers in charge, which were divided into four categories: national, organisational, domestic and personal. Thus, the strategic calculations of policymakers do not explain every aspect of Japanese policy. Nevertheless, it should be stressed that the Japanese policymaking agents certainly have recognised what is necessary for Japan and how its interests should be promoted; ultimately this recognition has led them to take the above style of policy.

### Conclusion

It is reasonable to conclude, from what has been discussed so far, that Japanese policymakers have conducted foreign policy in a way that is different from other major countries, and that can be characterised as a low-profile and incremental style. Domestic factors, such as a consensus-based society, may have contributed to this style

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<sup>42</sup> Juichi Inada, "Taigai enjo," p.200.

<sup>43</sup> Linda Weiss, *The Myth of the Powerless State* (Ithaca: Cornell University Press, 1998), p.206.

to some extent, but it is also certain that Japanese policymakers have recognised Japan's international and regional constraints, which has made them adopt this style of policy as a strategy to realise specific policy goals. This style of policy may have led to the appearance that the Japanese foreign policy was reactive in nature, but it is important to note that, behind that picture of apparent reactivity, there are strategies with which Japanese policymakers have tried to advance the country's national interests.

## CHAPTER 7

### CONCLUSION

This thesis has examined two hypotheses regarding Japanese foreign policy, specifically regional policy: (1) there has been a shift in the nature of Japanese policy, namely Japan showed more interest in taking greater initiative independent of US policy, not only economically but increasingly politically, particularly in its East Asian relations; and (2) Japanese foreign policy has been characterised by a low-profile and incremental style, which makes for far greater effectiveness than often realised. As far as the latter hypothesis is concerned, the last chapter summarised comprehensively the evidence presented in this thesis, and concluded that Japan has been quietly pursuing definite strategies, and that Japanese policymakers have acknowledged that this style suits Japan in realising its policy objectives given the international and regional circumstances under which Japan has been placed. Thus, this concluding chapter will review the results of the investigation of the former hypothesis.

The thesis has been driven by the puzzle of why there is a wide divergence of opinion on Japanese foreign policy. The two main points of disagreement are: (1) whether Japanese foreign policy can be characterised as reactive and opportunistic, or strategic and effective; and (2) whether its foreign policy priority is accommodating the US and its East Asia policy is decided according to US relations, or whether East Asia has occupied a definite position in Japanese foreign policy. It is true that in the early postwar period Japan adopted a minimalist policy in terms of foreign affairs. Also, few would dispute that Japan's policy has been greatly constrained by its US relations. However, this thesis opposes the idea that Japan is just reacting to external pressures, and that its US relations decide its foreign policy. The empirical evidence in Chapter 2 showed that even in the early postwar period Japan's policy reflected the thinking of



Japanese policymakers about Japan's political and economic interests, other than US pressures. Even though Japan's regional policy was quite strongly influenced by the US Cold War strategies, Japanese policymakers also had their own agenda in regard to Japan's relations with the region. In fact, as Chapter 2 showed, even in the early postwar period Japan showed its willingness to take some regional initiative, although it was not very successful at that time. Furthermore, although it is true that US policy greatly influenced, if not determined, Japanese policy, that was the cost that Japan had to pay in exchange for pursuing its postwar principle of the Yoshida Doctrine. In other words, as discussed in the previous chapter, Japan's economic and security dependence on the US after the war is what Japanese leaders chose for realising their long-term policy objectives. Thus, the resultant apparent reactivity of Japan can be regarded as a strategy for that purpose. In fact, it was discussed in Chapter 6 that the low-profile and incremental style of Japanese policy reflects the conception of Japanese policymakers about the country's national interest, and Japan has successfully achieved its policy goals with that style. Moreover, as seen throughout the thesis, the nature of Japanese foreign policy has been changing from a political minimalist stance to more initiative taking. Thus, the negative thesis on the nature of Japanese foreign policy has been increasingly inadequate. In short, the view of Japan as a reactive state or the interpretation of Japanese policy merely as an extension of its US policy is not only contradictory to the empirical evidence discussed in the thesis, but also neglects what was stressed in Chapter 6, namely the way Japan has conducted its policy.

On the other hand, the positive thesis reviewed in the Introduction is not sufficient either, particularly when considering Japan's more recent policy after the end of the Cold War. This literature tends to stress the very positive nature of Japan's foreign policy in the economic sphere, but fails to discuss fully its increasing political initiatives independent of the US. This thesis has contributed to this literature by providing more evidence, including three case studies, and has considered the factors

that led to this change. Chapter 2 discussed how Japan's postwar regional policy developed and how it came to assume significant roles in East Asia in a historical context. The chapter argued that the adoption of the Fukuda Doctrine in 1977 was a turning point in Japan's regional policy, but that it has changed more significantly since the late 1980s. This argument is supported by Japan's direct involvement in the Cambodian peace process from the late 1980s as well as its positive engagement in some regional frameworks such as APEC and ARF in the 1990s. Chapter 3 discussed Japan's ideological initiatives, looking at its consistent assertiveness over the development philosophy in the 1990s. In Chapters 4 and 5, the thesis focused on specific issues, namely Japan's policies towards the East Asian financial crisis and East Asian regionalism, and discussed how and why Japan took independent initiatives on these issues. From the evidence discussed in the thesis, it is fair to conclude that Japanese foreign policy has been changing throughout the postwar period in the direction outlined above.

At the beginning of the twenty first century, the picture of Japanese foreign policy is completely different to that of half a century ago. Nevertheless, little attention has been given to this point so far. Even the recent studies conducted during the last decade tend to neglect this important change in Japanese foreign policy, and the majority of the literature still focuses on Japan's economic power, although that is still of great significance. Even J. A. A. Stockwin, a prominent scholar in the study of Japanese politics, underestimates this important change in Japanese foreign policy by stating:

It is often said that Japanese foreign policy in the 1990s is in a state of transition from one governed by considerations of the Cold War and Japan's overwhelmingly important relationship with the United States, to something more appropriate for the post-Cold War world. On the other hand, the changes that had taken place by 1997 were hardly spectacular... there is little sense of any breakthrough in the Government's willingness to chance its arm in

international affairs, and despite of much talk of forging a distinctive identity in international affairs, it remains unclear what this is supposed to be.<sup>1</sup>

This thesis aims to alter these views on Japanese foreign policy, which seem to be still quite entrenched.

In short, one major contribution of this thesis is that it complements the literature on both the negative and the positive theses on Japanese foreign policy discussed in the Introduction, by demonstrating the occurrence of significant changes in Japanese foreign policy and by explaining the impact of a number of factors on this changes, with sufficient empirical evidence. Strictly speaking, it is not argued that Japanese foreign policy has been moving in a completely opposite direction, and in fact, the fundamental part of the postwar Japanese policy, namely the importance of US relations, has been still present. Nevertheless, the changes that have been observed are not trivial at all, and deserve to receive more attention in the future research on Japanese foreign policy. The arguments of the thesis are recapitulated below.

#### The continuing importance of US relations

The fact that Japan has increasingly taken more initiative in East Asia does not mean that Japan is ready to act against US interests or wishes. Japan is neither willing nor able to push through any agendas in defiance of the US, which was evidenced in Japan's attitude towards the EAEC and the AMF proposals. In fact, Japan's recent initiatives are not fundamentally against US interests. In most circumstances, Japan consulted with the US beforehand, trying to make it understand what Japan was going to do. In this sense, it may be argued that Japan's independent initiatives do not mean complete independence, and that "Japan is conducting foreign policy with one eye

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<sup>1</sup> Stockwin, Governing Japan, p.202.

carefully on Washington" still.<sup>2</sup>

This is because, in addition to Japan's strong economic dependence on the US, even after the common enemy that the communist bloc had been ceased to exist, the majority of Japanese policymakers and intellectuals consider that the Japanese-US relations based on the security treaty are still the core of Japan's security strategy. It seems that there has never been wider consensus about this issue than in the 1990s, when the Social Democratic Party of Japan, the main opponent of the treaty and the SDF during the Cold War Period, accepted the legitimacy of the treaty and the SDF for the first time. In fact, the security relations between the two countries were not diluted in the post Cold War era. The security treaty was reconfirmed by President Clinton and Prime Minister Hashimoto in 1996, and subsequently the new Guidelines were agreed by the two governments in June 1997; the related legislation was passed by the Japanese Diet in May 1999. Although Japan has become more interested in multilateral security frameworks, such as the ARF, these are considered as supplements rather than substitutes to the existing bilateral frameworks. Thus, it is still strongly recognised among the majority of Japanese policymakers and intellectuals that the US security engagement in the region is indispensable not only for preparing to counter potential aggressions, but also as a deterrent to such incidents, and the US-Japan security treaty is a significant means for keeping the US military presence in East Asia. No country has a military capability that equals that of the US in terms not only of technology but also adequate exercise and experience.<sup>3</sup> Akihiko Tanaka argues that it is important to keep the US military presence in the region at least for some time, as it is too dangerous to deal with an issue such as the North Korean nuclear programme only among East Asian countries; the US may not really take an active part in a possible dispute in the South China Sea, but the presence of US forces itself will

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<sup>2</sup> Green, *Japan's Reluctant Realism*, p.3.

<sup>3</sup> Kitaoka, "Nichibei teikoi," p.232.

prevent such an incident from occurring.<sup>4</sup> Also, the security treaty between the US and Japan has had, and still has, a symbolic meaning: it guarantees that Japan will not threaten its neighbours and consequently its neighbours are reassured.

Considering all this, the centrality of the US in Japanese foreign policy has not changed, and will not change in the foreseeable future. Under the current relationship, it is the US that controls the security fate of Japan, and Japan is, after all, a junior partner to the US, even when Japan's economic influence over the US is taken into account. This situation has always made Japan pay attention to the US position when considering its policy, and sometimes Japan has had to compromise with the US. Furthermore, probably the US's structural power over international affairs, as suggested by Susan Strange, should also be considered. Even Eisuke Sakakibara, who is a strong advocate of a more independent Japanese foreign policy, notes that Japan will not be able to adopt any policy that could antagonise the US even in a few decades time.<sup>5</sup>

#### The loosening of the framework of the Yoshida Doctrine

Nevertheless, despite this fundamental continuity, this thesis has stressed the occurrence of an important shift in Japanese foreign policy, which can be characterised as the loosening of the framework of the Yoshida Doctrine. The international, regional and domestic conditions under which Japan conducts its diplomacy have dramatically changed in the last decades, and this has significantly affected its relations with regional countries as well as the US. It has had a great effect on the framework of Japanese foreign policy as a whole, and it has been increasingly difficult for Japan to keep the Yoshida Doctrine as the main guiding principle for maintaining and enhancing the national interest.

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<sup>4</sup> Tanaka, "Higashi ajia no anzen hoshō," p. 139.

<sup>5</sup> Comment in a panel discussion featured in *Kokusai Mondai* 490 (2001), p. 16.

### *Increasing political initiatives*

What the thesis has repeatedly emphasised are Japan's increasing political initiatives, which represent a significant change in Japanese foreign policy in the sense that they show Japan's intention to implement its own policies that are not the extension of, or a derivation from US policies. It was argued that until recently the bulk of Japan's foreign policies were attributed to US-Japan relations, unless its economic interests were directly concerned. This does not mean that Japan's policy was merely a reaction to US pressures, as stated above. However, on many occasions, Japan has been quite reluctant to take positive action and avoided adopting political initiatives unless there were strong US pressures or direct economic interests involved. In this sense, it is particularly noteworthy that Japan has increasingly shown much more interest in assuming responsibility for independent political initiatives in the last one or two decades. It is also important to note that Japan has been more willing to participate actively in forging new international and regional frameworks, in marked contrast to its past passive stance as a taker of the existing orders.

### *A more positive security policy*

In addition to this increasing interest in political initiatives, Japanese policy has shown some signs of change in the security area as well. Japan has gradually expanded the role of the SDF throughout the 1990s since the Gulf War. The recent decision, in response to the September 11 incident, to dispatch the SDF overseas during actual military actions to give logistical support to the operations of the US and other countries would not have been thought possible a decade ago. In addition, as mentioned above, Japan has been more positive about regional security dialogues. It is noticeable that in January 1993, Prime Minister Miyazawa announced the Miyazawa Doctrine, which declared Japan's intention to participate actively in creating a regional political and security framework. These changes are particularly noteworthy, given

Japan's past silence in this area, and are in contrast with the past stance of trying to avoid any military involvement by using economic means instead. Furthermore, even debates on a revision of the Constitution have arisen among intellectuals, the media and the public, although there has not been any agreed idea about it yet. It seems that there have been an increasing number of voices not only among policymakers but also the Japanese public that Japan should cease to be a junior partner of the US. Considering the persistent pacifism of the Japanese public, it cannot be expected that any dramatic change in Japan's security policy in the foreseeable future will occur. It is quite unlikely that Japan will resort to military power as a major diplomatic tool. However, it is highly significant that there has been a gradual shift in its security stance since the early 1990s, accompanied by an expansion in the role of the SDF.

#### Greater emphasis on East Asian relations

In addition to Japan's increasing political and security initiatives in the region, the thesis has also discussed another important change in Japanese foreign policy: namely the rise in significance of the position that the East Asian relations occupy in Japanese foreign policy in the last few decades. Asia has always been important to Japan. In the prewar days Japan's interest in Asia was manifested in the attempts to create the Greater East Asian Co-prosperity Sphere. However, for a couple of decades after the end of the war, Japan's regional policy was quite limited, and relatively little attention was paid to its regional relations. That was the era when Japan concentrated on its own economic development under the hegemony of the US. Since the 1970s, in accordance with various changes in the international environment, such as the growing economic interdependence in the region and the remarkable economic growth of many East Asian countries, Japan's emphasis on East Asia in its foreign policy has gradually been increasing. Economically, East Asian countries have become far more important partners for Japan rather than the mere suppliers of natural resources and importers of Japanese manufactured products that they used to be. In addition, as discussed below,

East Asia has increased its importance for Japan's overall political strategy in the post Cold War era.

With this growing importance of East Asia, the positions taken by East Asian countries have increasingly influenced Japanese foreign policy, despite the fact that some believe that the US pressures have largely dominated Japan's postwar policy. In fact, Japan's ambiguous attitude towards the EAEG as well as the dropping of the AMF proposal were greatly influenced by the lack of consensus on these ideas among East Asian countries. Yamakage stresses that it is necessary for Japan to obtain the support of the ASEAN in order to realise its ideas,<sup>6</sup> and so it is with respect to other East Asian countries, notably China and South Korea. Japan has been very cautious about its regional relations throughout the postwar period, and despite the recent improvement in the relations between Japan and its neighbours, Japanese policy has been greatly constrained by them.

#### **Japanese foreign policy at present and in the future**

What then do these discussions about the changes in the nature of Japanese foreign policy mean for the present and future Japanese foreign policy? What is Japan trying to do and what are the current strategies of Japanese policymakers?

Japan's foreign policy goals have not changed throughout the postwar period. They are: (1) short-term and long-term economic prosperity; (2) the political and security stability of its territory; and (3) higher political status in the world. However, the ways of pursuing these three goals have been changing. For a few decades after the war Japan pursued these objectives following the Yoshida Doctrine, but due to the transformation of the international system since the 1970s and more obviously since

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<sup>6</sup> Susumu Yamakage, "Japan-ASEAN Relations during and after the 1997-1998 Crisis," paper presented at CSGR 3<sup>rd</sup> Annual Conference, University of Warwick, September 16-18, 1999.



the late 1980s, the conditions that allowed Japan to implement its policy following the Yoshida Doctrine have begun to change significantly. Accordingly, Japan has changed its strategies for achieving these goals, and the changes in the nature of Japanese foreign policy outlined above should be understood in this context.

First, these changes in the nature of Japanese foreign policy, namely the adoption of more positive approaches to political and security issues and the growing importance of East Asian relations, can be discussed in the context of the effort of Japanese policymakers, specifically MOF and MOFA officials as well as some politicians, to maintain and enhance Japan's political status in the world. As discussed in Chapter 2, the end of the Cold War and the resultant changes in the international system have raised an identity question for Japan and have made its status in the world politics more uncertain, while its traditional ways of contributing its economic resources, instead of political and military involvement, to international affairs have become criticised as chequebook diplomacy. The Gulf War, in particular, had a considerable impact on the thinking of Japanese policymaking agents as well as the public. While Japan's huge economic contributions were not appreciated, the Japanese people learned that its pacifism was not necessarily praised by the international society. Also, the decline of the Japanese economy since the 1990s has revealed the limitation of relying solely on economic resources. For maintaining and enhancing its international status, Japanese policymakers believe that Japan has to show the world that it is willing to take a more active political role in the international system, other than contributing money, and for historical and geographical reasons East Asia has become the main venue where Japan can take certain political initiatives. This, in turn, has made it an urgent issue for Japan to establish firmer regional ties, and the increasing interaction of Japanese policymakers with their counterparts in East Asian countries since the early 1990s greatly reflects this point. This is also shown in Japan's current enthusiasm for East Asian regionalism in that East Asia can provide Japan with great

opportunities to take a leadership role.

Second, these changes in the nature of Japan's foreign policy are also a reflection of concerns about the stability of its territory. As discussed in Chapter 2, the end of the Cold War has made it likely that the US forces will have to withdraw from East Asia to a certain extent, and this will be accompanied by the reduction of its political presence. This is not what Japanese policymakers wish, nor are they trying to exclude the US from the region, but, as stated earlier, the US clearly has shown its intention to cease to be the world policeman. The gradual withdrawal of the US from the East Asian region is highly likely in the long-term in the post Cold War era, although the US has shown its determination to maintain around 100,000 troops in East Asia for the moment. As argued earlier, Japanese high-ranked officials particularly in the MOF, the MOFA and the MITI have shared the view that East Asia has to prepare for this eventuality. This, together with the belief of many Japanese policymakers that in the post Cold War period Japan must participate in establishing new international and regional orders instead of simply trying to utilise existing ones for securing its national interests, has given Japanese policymakers enough motivations to promote Japan's greater political and security commitment to regional affairs so as to compensate for the possible decline in the US presence. This is because political and security instability anywhere in the East Asian region would threaten Japan's stability. Under these circumstances, some regional frameworks have been seriously considered among Japanese officials, as they represent an important strategy for securing the political and security stability of Japan.

Third, this concern of Japanese policymakers about the uncertain security situation in the region in the future due to the probable US withdrawal in the long-term is also related to their thinking on economic issues as well, in the sense that any future political and security disturbance in the region would severely affect the regional

economy, and in turn the Japanese economy. Due to the deepening economic interdependence of the regional economy, a large number of Japanese firms and banks have huge stakes in the region, and thus the economic instability of the regional countries would directly threaten Japan's economic interests. Furthermore, the East Asian financial crisis reminded Japanese policymakers of the closeness between East Asian economies, and has made them recognise the importance of economic, specifically financial, stability in East Asia for the Japanese economy. Japanese policymakers have become keenly interested in the health of the East Asian economy, and thus regional political stability. This has enhanced the importance of regional matters in Japan's foreign policy to such an extent that the agenda for regional cooperation has become the focus of the policy.

In short, all the vectors concerned with Japan's policy goals have pointed in the direction of the changes in Japanese foreign policy discussed here, namely the interest in establishing closer relations with regional countries as well as some regional frameworks, accompanied by more political and security initiatives particularly for regional matters. They are the new ways in which Japan is enhancing its international status in the post Cold War period, a time when Japan needs to show more explicitly its political will. They are essential to maintain the stability of the region as well, given the probable withdrawal of the US from East Asia in the long-term, if not in the foreseeable future. Political and security stability, and in turn economic stability, in the region have an impact on Japan's economic interests, considering the growing interdependence of the regional economy since the 1980s, and particularly the severe experience of the East Asian financial crisis in the late 1990s. In other words, they are the new ways, replacing the Yoshida Doctrine, of pursuing the political goals of Japan under the changing international order since the 1970s and particularly since the late 1980s.

Finally, another important question that remains to be answered in this concluding chapter is why Japan's main interest in regionalism has shifted from Asia Pacific to East Asia, specifically to the framework of ASEAN + 3, since the late 1990s. It has been shown that Japanese policymakers have been increasingly thinking that East Asia should have some frameworks for cooperation independent of the US. As stated repeatedly, this is not an attempt to exclude the US from East Asia, or to discard the frameworks of Asia Pacific cooperation, but it reflects the belief that East Asian countries should have their own frameworks as an alternative option, under the increasingly uncertain situation in the post Cold War period, in addition to the existing international, regional and bilateral frameworks. This change is highly interesting, as Japan has been consistently promoting some form of Asian Pacific regionalism since the 1960s. As discussed in Chapter 2 and Chapter 6, the concept of Asia Pacific is actually a very convenient one as it can help Japan manage its long lasting diplomatic issue of how to balance the relationship with the US and that with East Asia. The idea of Asia Pacific is also effective in that it appears to decrease the Japanese influence and therefore reduces the concerns of its neighbours. It is necessary to think about what this shift in Japan's stance on regionalism means and what Japan is trying to do with the new framework of East Asian regionalism.

The thesis has already addressed this question. It has argued that East Asian regionalism can be a good opportunity for Japan to take a leadership role in the region and to show its willingness to assume more positive political roles. Also, East Asian regionalism reflects the key conception of Japanese policymakers that East Asia has to reinforce its own frameworks to prepare for probable US withdrawal from the region in the long-term. The deepening economic interdependence of the regional economy has also made Japanese as well as East Asian officials recognise the need to cooperate more closely with each other to prevent serious disturbance from occurring. In addition, East Asian countries' greater acceptance of Japan's larger role in dealing with

regional matters, a more benign relationship between Japan and regional countries and the increasing number of 'Asianist' policymakers in Japan are also factors that explain the shift in the Japanese priorities in East Asia.

However, these explanations still seem to leave one question unanswered, namely, why the choice for East Asia and not Asia Pacific. The thesis has discussed various reasons for this in previous chapters, and the answer to the question depends on the area of discussion.

MOF officials, whose main interest is the stability of the Japanese financial markets, have been strengthening their belief since the early 1990s, that East Asia should have some self-help mechanisms instead of relying solely on the assistance of the US and the international organisations. To MOF officials, the existing international organisations are limited in their ability to deal with East Asian issues in terms of the available resources and information. The financial crises in the late 1990s gave further credence to this interpretation, as not only was the IMF assistance not enough to ease the crisis situation, but also the crises revealed to Japanese (and East Asian) policymaking agents and intellectuals the US double standards, in the sense that the US showed a different degree of commitment to the resolution of the East Asian crisis compared with the Latin America and Russian crises. This has made MOF officials believe that it is important to establish some self-help mechanisms in East Asia to supplement the existing system for preventing and preparing for any future financial disturbance.

Furthermore, a decade-long ideological disagreement between Washington and the MOF concerning the relevance of different models of economic management, as well as the dissatisfaction with the limited roles of the Japanese staff in the existing international organisations together with Japan's small voice there despite Japan's

huge financial contributions have probably added momentum to the attempt of MOF officials to advance East Asian financial regionalism. In particular, these ideological differences became even clearer during the crisis, which increasingly frustrated MOF officials and made them articulate their views more assertively. In this sense, it could be argued that MOF officials wish to have some regional framework that will not be influenced by Washington's policy. This does not mean that MOF officials want to exclude the US from the region, rather that they wish to have a framework that can reflect their ideas more.

MOFA officials, who have a stronger interest in the country's political and security issues than other ministries, have slightly different motivations to advance East Asian cooperation. They share the view of MOF officials that East Asia has to prepare for the probable withdrawal of the US from the region in the long-term by establishing some additional regional frameworks. Also, they have strongly felt that Japan has to show to the world its will to take political initiative. Furthermore, the stalemate of the APEC processes encourages them to look for an alternative East Asian option. However, it is highly unlikely that Japanese (as well as East Asian) officials will pursue any self-help mechanism in the region in the foreseeable future particularly in the security area, as they still think that the US should be a key player in the political and security issues in the region. What MOFA officials have currently proposed is to have multiple options. The ARF, which includes the US, is one, the political East Asian framework is another, and both could complement the traditional framework in East Asia.

This many-sided regional approach can be also effective in dealing with Japan's China relations, which have been, and will be, increasingly important and difficult for the Japanese diplomacy, given the perceived rise of China as an economic and military power as well as the persistent mistrust of each other. That is, this multifaceted policy of Japan on regionalism is in part the result of an awareness of the issues involved in

its engagement policy towards China and aims to encourage China's integration into the regional and international society. Such a policy could contribute to the smoother relationship between the two countries as they understand each other more, particularly since China is highly sensitive to Japan's dominance in the region and its intent in taking more political initiatives. In addition, drawing China into multifaceted regional and international frameworks could be an effective way to hedge against the future Chinese power, particularly military power, which might threaten and disrupt the international system.

Probably MOFA officials do not know exactly where the new East Asian framework is going, nor do they have a very clear view about how to utilise it in the future. In this sense, the MOFA's policy may be regarded as pragmatic, rather than strategic. Nevertheless, it should also be noted that they certainly recognise the significance of East Asian regionalism in establishing Japan's political status and in complementing the existing political and security orders in East Asia, given the probable US withdrawal from the region in the long-term, the perceived rise of China, and the belief that such a new framework can greatly contribute to stronger regional ties for Japan.

Finally, MITI officials' motivation to support the East Asian framework is obviously economic. While the US is still the most important economic partner for Japanese industries, East Asia has become another pillar as a trading and investing area. In this sense, APEC looked like a perfect mechanism for strengthening both relationships, and, in fact, the MITI played an important role in establishing APEC. However, the stalemate of the APEC processes as well as the US establishment of NAFTA has gradually made MITI officials look to bilateral as well as East Asian approaches because of the fear that Japan might be left out of any framework, when other major countries have joined their own regional and bilateral economic arrangements. Under the circumstances, they have been thinking that it may be wise to have several

approaches, including bilateral and East Asian approaches, in addition to its continuous support for APEC and the WTO, so as to secure Japan's economic interests.

Therefore, the thesis has, to a degree, a different stance from the mainstream argument that it was the East Asian financial crisis that triggered the regional move towards East Asian regionalism. It agrees that the crisis has increased the momentum behind this project, as discussed in Chapter 5. However, what the discussions of this thesis suggest is that various Japanese policymakers have their own motivations for advancing East Asian regionalism, which depends on the area of discussion, and thus on the ministry to which they belong, reflecting specific reactions to the transformation of the international system particularly since the late 1980s. In fact, the idea of East Asian cooperation did not come out suddenly during the crisis, rather it had been developing gradually throughout the 1990s, as discussed in Chapter 2 and Chapter 5. Thus, the development of East Asian regionalism, for which Japan's strong support is essential, should be discussed against the background of this shift in the orientation of the Japanese foreign policy, in addition to the crisis.

Where then is Japanese foreign policy going in the future? Are the changes that the thesis has discussed sustainable? Because these changes in the nature of Japanese foreign policy have reflected the international and regional conditions that have been transforming significantly, it can be expected that Japan will have to continue to move in the same direction in order to maintain and enhance its national interests and to realise its policy goals. Japan will probably try to take more and more economic, political and security initiatives in the region, with East Asia becoming another pillar of its foreign policy together with the relationship with the US. However, these new initiatives will probably have to be taken in the current style of Japanese policy, namely a low-profile and incremental approach, as Japanese policymakers still believe that Japan should not, and cannot, take a dominant approach, as discussed in Chapter 6.



As the thesis has demonstrated, more independent initiatives and the present style of Japanese foreign policy are not incompatible in the foreseeable future.

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